

**FOCUS****ECONOMIC JUSTICE**

Lotte Scandal Accelerates the Government to Reform Chaebol Management

**ECONOMY****STRAINED RELATIONSHIP**

Changes in Chinese Economic Policy Posing Threat to Korean Exporters

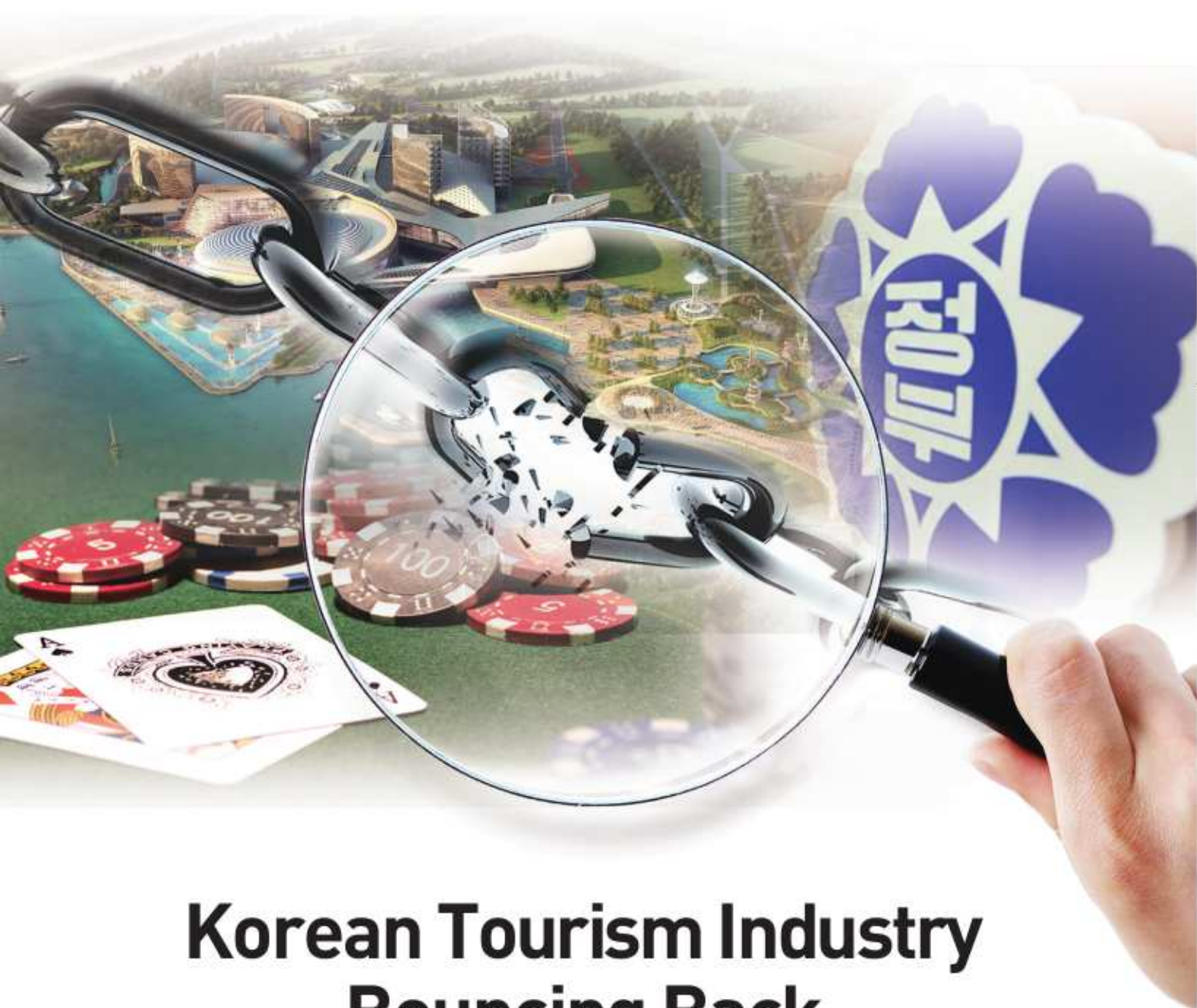
**INDUSTRY****MOBILE PAYMENT**

Simple Payment Service Market Highly Likely to Become Overheated

# BUSINESSKOREA

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## Korean Tourism Industry Bouncing Back





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## North Korean Leader Should Put His Money Where His Mouth Is

Inter-Korean relations saw a dramatic turnaround on the brink of a crisis on Aug. 25. Both the political community and the media in South Korea are praising the government, which led the negotiations, and the public is

in favor of the result as well. It is said that both Koreas escaped a war crisis, with the stage set for President Park Geun-hye's Trust-building Process on the Korean Peninsula.

Under the circumstances, North Korean leader Kim Jong-un announced on Aug. 28 that he would comply with the Inter-Korean agreement concluded three days earlier. "The agreement is an important breakthrough that relaxed military tensions between the two Koreas for reconciliation and mutual trust and, we need to cherish the agreement so that it can bear meaningful fruit," he remarked at a meeting of the Central Military Commission of the Workers' Party.

It is welcome news that the leader of the North officially promised to comply with an inter-Korean agreement for the first time. A meeting between the authorities, a reunion of separated families, and the Mt. Kumgang Tourism Project will be able to be resumed if he has a clear will to do so.

Still, his stance is somewhat doubtful. It seems that the North Korean leader saw better mutual relations as his only option, with the alliance between Seoul and Washington still rock solid and China putting pressure on him. In his speech, Kim Jong-un emphasized the importance of military power yet again by saying that the agreement was possible because of North Korea's self-defensive nuclear deterrence, which implies that he would not give up on his nuclear weapons. The RodongSinmun reported on Aug. 28 that nothing will improve unless the United States continues to regard the North as a hostile country.

Few things can be predicted given the unpredictability of the North. Nevertheless, it is thought that the loudspeaker propaganda broadcasts toward the North is what Kim Jong-un is afraid of the most and it will deter him from provocative actions for the time being, because he is well aware that the broadcasts will resume at the moment when any unusual action is seen.

That being said, the South Korean government is currently taking prudence regarding the improvement of bilateral relations, saying that it should confirm the sincerity of North Korea's promise first, and the promise itself is somewhat short of a proper apology for the provocations like the sinking of the Cheonan.

In short, it remains to be seen whether North Korea's mentioning of better inter-Korean relations is to halt the broadcast or is really to improve relations.

According to the Gallup Korea poll that followed the inter-Korean agreement in Aug. 25, most of the general public of South Korea praised the result of the talks, but only 17 percent of them answered that the North would stick to the agreements. Seoul needs to review its North Korea strategy thoroughly so that Kim Jong-un cannot stall for time or money with nuclear missiles on hand. It is not the strategy for unification under communism, but tactics against the South that he changed this time. What President Park Geun-hye should have in mind is prudent steps.

Park Jung-hwan,  
Publisher & Editor-in-Chief



## Economic Justice

# Korean Government to Reform Chaebol Management Structure after Lotte Incident

by Jung Min-hee



**D**emands are rising for the disclosure of specific information on the largest shareholders of listed companies in the wake of the recent Lotte Group scandal.

At present, some of the half-yearly reports submitted to the Financial Supervisory Service (FSS) by the subsidiaries of major Korean business groups do not show information related to the largest shareholders such as their shareholding status, consolidated statements of financial positions, income statements, or the present conditions of business.

According to the public announcement guidelines of the FSS, details as to factors that could affect business management stability, including the overview of the corporate body, shareholding ratio pertaining to the largest shareholder, financial conditions, and business conditions should be disclosed when a corporate body is the largest shareholder. However, the guidelines are not mandatory.

Shinsegae International, Dongwon

Industry, Pulmuone Foods, Hankook Tire, Hanjin Heavy Industries & Construction, KT Music, LS Industrial Systems, POSCO C&C, and the like recently omitted their financial status as to the largest stockholders. They are likely to be given a warning by the FSS, as were Lotte Group subsidiaries such as Hotel Lotte and Lotte Aluminum. The subsidiaries disclosed the overview of Lotte Holdings and L Investment Company, while omitting the shareholding and financial status of the largest shareholders.

Subsidiaries of the Hyundai Motor Group, the Daesang Group, and so on simply showed the capital, assets, and debts of their biggest shareholders. Those of the Samsung Group, on the contrary, disclosed even income statements and consolidated statements of financial positions. Samsung Fire & Marine Insurance and HI Investment & Securities showed the business and financial status of the biggest shareholders, too.

Under the circumstances, the government and the ruling party have decided to reform the ownership structure of the country's family-run conglomerates amid a public backlash over the escalating power struggle in the Lotte Group.

Presided over by Rep. Kim Jung-hoon, chief policymaker of the ruling party, the government and the ruling Saenuri Party had a meeting attended by Fair Trade Commission (FTC) Chairman Jeong Jae-chan on Aug. 6 to discuss what measures can be taken to improve the governance structure of private business groups, commonly known as chaebol and which include the Lotte Group.

In a phone interview on Aug. 5, Kim, Saenuri's chief policymaker, said, "I heard that the FTC has asked the Lotte Group to report its current governing structure by Aug. 20. After hearing the government's investigation plan, we will discuss what legal and institutional actions can be taken to tackle the murky ownership issue."

A day earlier, he talked on the phone with FTC Chairman Jeong Jae-chan and agreed on the need to have the urgent meeting.

FTC Chairman Jeong also said that he will get and analyze inside data from the Lotte Group to check if the group has provided all the necessary data, as its ownership structure is extended to Japan.

The meeting mainly covered the Monopoly Regulation and Fair Trade Act in a bid to reduce Lotte Group's 416 cross-shareholding arrangements.

The country's existing fair trade law bars new cross-shareholding arrangements, but not existing ones. Kim said, "We will check how many cross-

shareholding arrangements of business groups have been reduced after the fair trade law banning new cross-ownership has been passed. And, if the need arises, parliament can propose a bill that would compel chaebol to reduce existing cross-shareholding arrangements. In some cases, ownership structures of other conglomerates can be checked as well."

In the executive meeting among senior party members, he also said, "It has been two years since the fair trade law banning new cross-ownership has been passed, so it is time for a review."

The meeting agenda also included measures to contain an owner's family controlling the vast business empire, even if they do not personally own a lot of shares.

For Lotte, General Chairman Shin Kyuk-ho's stake in the conglomerate stands at only 0.05 percent, with this number rising to just 2.41 percent if stakes held by all family members are tallied.

Kim said, "The fact that owners of conglomerates control the groups with a meager stake and cross-shareholding arrangements, just like their own private companies, fails to correspond with economic justice. The Lotte incident happened because of this sense."

## Anti-Lotte Sentiment

In the meantime, the Financial Consumer Agency (FCA), a public consumer organization, announced on Aug. 13 that it has banded together with Small Business Association of Korea (SBAK) to indefinitely boycott the Lotte Group's products.

The FCA and KSBA jointly released a statement saying, "By more actively carrying out a boycott campaign against Lotte Group, we will establish a fair market economy and improve the damages against small businesses and mom-and-pop storeowners caused by the high-handedness of big corporations. We are also planning to hold a joint rally next week."

Previously, the FCA has declared a boycott of all products and services from



the Lotte Group and its affiliates on Aug. 4, when the family feud broke out to win control over the group.

The KSBA has also launched a boycott of Lotte Mart's products on Aug. 10, as well as terminating its affiliation with and refusing to accept Lotte Cards.

Although Lotte Group Chairman Shin Dong-bin apologized over the ongoing family feud on Aug. 11, it was disappointing that there was no substance," an FCA representative pointed out.

The representative also said, "In the public apology, Chairman Shin said that Lotte is wholly a Korean company. However, he did not mention any specific measures, time, or future business strategy to regain the trust of domestic customers. So, it was disappointing."

It seems that Lotte has lower brand image than any other domestic group, and it is no exaggeration to say that it has shown an imperial management style. Surely, all domestic chaebols are not much different from Lotte. However, that doesn't mean that it is too much to criticize Lotte now. Rather than saying it is harsh only on Lotte, we should work together to make other chaebols receive criticism and ask them to change through Lotte's reform.

The FCA stressed, "The government needs to conduct a full-scale investigation over Lotte's business favors through the unhealthy links between business and politics, and illegal acts, including capital transfers between Korea and Japan, in order to clear suspicions. Also, it should closely examine and carefully decide upon the reapproval of Lotte Duty Free."

Meanwhile, the FCA is currently carrying out an online signature-collecting campaign of people who will participate in the boycott of Lotte Group's products on its official website.

## Reform to be Accelerated

In the shareholder meeting of Lotte Holdings Japan on Aug. 17, which was the watershed of Lotte Group's governance dispute, Lotte Group Chairman Shin Dong-bin has won a complete victory. Accordingly, Shin Dong-bin has completed his succession as head of the family business. There is now one Lotte under one leader.

During the meeting, participants were set to discuss agenda items such as hiring an external board of directors and improving the group's corporate governance structure. Both agenda items were passed in the original form proposed by Chairman Shin Dong-bin. A senior official from Lotte Group said, "The two agenda items were passed by a majority vote. It shows the support for Chairman Shin Dong-bin's management policy that management and family shouldn't be mixed up."

It was the first shareholder meeting after Lotte Group Chairman Shin Dong-bin became CEO of Lotte Holdings Japan through an emergency board meeting on July 28. Also, it is meaningful that shareholders of Lotte Holdings Japan, who are at the center of the governance structure of Lotte Korea and Japan, have sided with Chairman Shin. Accordingly, the Lotte Group has ended the era of Shin Kyuk-ho, Lotte Group's founder and former general chairman, and opened the era of Shin Dong-bin.

The agenda item of the corporate management system is part of a bigger reform plan proposed by Dong-bin to improve the governance structure and management transparency of the Lotte Group in his national apology on Aug. 11. Since the passage of the item can be interpreted as the shareholders' support for Chairman Shin, his reform drive is expected to gain momentum in the future. ●





70th Anniversary of National Liberation

## In Search of Another Economic Miracle

by Jung Min-hee

A Korean woman attaches South Korean flags to a tree in celebration of Korean Independence Day.

Korea celebrates the 70th anniversary of national liberation on Aug. 15. People are asking for a bigger role in enterprises to create another miracle on the Han River.

According to Statistics Korea, the country increased its GDP 31,000-fold, from 47.7 billion won (US\$40.7 million) to 1.485 quadrillion won (US\$1.265 trillion) between 1953 and last year, to rank 13th in the world. During the period, the ratio of its primary industry decreased from 48.2 to 2.3 percent, while that of the manufacturing sector jumped from 7.8 to 30.3 percent. Its exports skyrocketed from US\$2,500 to US\$72.7 billion as well, to account for 3.1 percent of the global total, which is the sixth largest in the world.

Such rapid economic growth was led mainly by Korean enterprises. Korea, which had resorted to foreign aid, launched its first five-year economic development plan in 1962, and Samsung, Hyundai, LG, and SK benefitted from it to become leading global players.

The Samsung Group's sales and

aggregate market value soared from 29 trillion won (US\$24.7 billion) to 380 trillion won (US\$323 billion), and from 7.6 trillion won (US\$6.5 billion) to 340 trillion won (US\$290 billion) between 1993 and 2014, respectively. The number of its employees more than tripled to 420,000, too. The Hyundai Motor Group's market capitalization and sales increased 29-fold and 11-fold each between 1999 and 2012, as well.

Korea is facing a crisis at this moment, though. Its economic growth rate for this year is estimated at less than 3 percent, and the slowdown is likely to continue for a while amid adverse external and domestic conditions. Its smartphone and automobile industries have reached their limits, while China and Japan are posing a serious challenge. They are about to catch up with Korea in the semiconductor industry, too.

On the Bloomberg list of the world's top 500 companies, the number of Korean enterprises fell from seven to three in 10 years. Samsung Electronics fell six notches and Hyundai Motor

Company slid no less than 159 notches, while Hyundai Mobis, POSCO, and the Korea Electric Power Corporation disappeared from the list this year. On the contrary, the number of Chinese companies increased approximately seven-fold from seven during the last 10 years and the Japanese companies on the list are showing much better performances than before these days.

Last month, the Hyundai Motor Group's overseas sales volume declined 7.4 percent from a year ago. Samsung Electronics' global smartphone market share fell 4.1 percent during the period, as Apple and Chinese handset manufacturers attracted more customers.

The business community is claiming that a structural reform is the key to the situation. The idea is that the lack of flexibility in the job market, excessive environmental regulations, and corporate governance structure vulnerability to foreign funds can be dealt with by means of the reform, and then new growth opportunities can be found to overcome adverse economic conditions. ●

## Global Place

## South Korea's Entrepreneurship Ranks 22nd Among OECD Countries

by Jung Suk-ye



According to a report, South Korea's business mentality lags behind most members of the Organization for Economic Cooperation and Development (OECD), ranking 22nd out of the 34 nations.

Korea Economic Research Institute (KERI) announced such results, based on the Global Entrepreneurship Index (GEI) 2015, in a report called "South Korea's Entrepreneurship Facts and Tasks" on Aug. 18. The GEI, released every year, is designed to measure 130 countries' overall attitude and conditions for business practices, including the people's level of creativity, as well as evaluating the countries' businesses, regulations, and legal systems, by the Global Entrepreneurship Develop-

ment Institute (GED).

For the GEI this year, South Korea ranked 28th among 130 countries this year, up four slots from 2014. However, it came in 22nd place out of the 34 OECD nations, inching up from the 23rd spot it had claimed the year before.

The United States claimed the top spot in the index, followed by Canada, Australia, the U.K., Sweden, Denmark, Iceland, Taiwan, Switzerland and Singapore, according to the report.

Hwang In-hak, a senior research fellow at KERI, said, "Excluding Japan ranking 33rd and Italy ranking 49th among OECD countries, higher-income countries than Korea have higher GEIs as well. We need to boost entrepreneurship in a bid to grow the economy." 

## Living at Bottom

## Korean Residential Housing Happiness Index 25th among OECD Nations

by Jung Suk-ye

South Korea's residential happiness index ranked 25th among 34 OECD countries, appearing at the bottom of the list.

According to a survey called "OECD Well-being by Region" on Aug. 20, South Korea's residential well-being index scored 2.6 out of 10 points, taking the 25th spot among its member countries. The OECD calculated the well-being index of residents in the 34 member nations by counting the number of rooms per person by country and region.

Canada scored 10 out of 10 points, ranked first with the highest index, followed by the U.S. with 9.7 points and Australia with 8.7 points. Japan, the country known for limited residential spaces, came in 12th place with 6.5 points. Countries that have scores similar to South Korea are Italy with 2.8 points and Estonia with 1.9 points. In contrast, Mexico came in at zero, ranking the lowest in the index.

Comparing residential score by capital, South Korea showed no significant dif-

ference with 2.1 points, coming in at 24th among the 33 countries surveyed. The number of rooms per resident in the metropolitan area of South Korea, including Seoul, stood at 1.3, half the figure of Canada with 2.4. It was even lower than the figure of the western Slovenia, including its capital Ljubljana, with 3.1 points.

Australia's Canberra and Canada's Ontario are the capital regions with the highest residents' well-being index, scoring 8.5 points. The U.K.'s London, which is known for having expensive housing, and the southern Kanto region of Japan, including Tokyo, received 4.8 and 4.7 points, respectively, remaining in the middle of the list.

The OECD looked into the regional well-being index of residents in 362 regions of the 34 member countries. However, there are limitations due to the fact that it did not consider the housing prices and the population density.

These OECD rankings correspond



A packed street in Myeongdong at night sees a lot of traffic.

closely with the 2015 Global Liveability Ranking compiled by the Economist Intelligence Unit, which ranked Melbourne as the most liveable city in the world for the 5th year in a row. Australian cities of Adelaide, Sydney, and Perth also ranked 5th, 7th, and 8th, while Vancouver, Toronto, and Calgary took 3rd, 4th, and 5th. (Adelaide and Calgary were tied).

Patrick Stringer, Victorian commissioner to Korea, remarked on Melbourne's 5th year topping the livability charts by saying, "We're extremely proud of our strong reputation as a great place to live, as the survey results are proof Melbourne offers an enviable lifestyle with a very dynamic and safe living environment." He added, "Victoria is the only state in Australia to have maintained a AAA credit rating for the past decade. The high quality of lifestyle, supported by strong and stable financial environment and pro-business government policy, Victoria is also where investors from all over the world want to do business."



## Tensions Released

# High-Level Inter-Korean Talks Dramatically Hammer Out Deal

by Michael Herh



**H**igh-ranking South and North Korean officials struck a deal in the early morning of Aug. 25 after a whopping four-day marathon of non-stop talks. The talks ran for a total of 43 hours and 10 minutes, from the afternoon of Aug. 22 to 12:55 am on Aug. 25. “North Korea expressed regret that land mines recently injured two South Korean soldiers in the southern side of the DMA,” said a joint press statement released by South and North Korea on Aug. 25. It is said that this expression of “regret” clearly indicated the main body of the provocation by making it clear that North Korea expressed regret about the land-mine blast.

Many experts say that the fact that North Korea expressed regret at all is a meaningful enough result. Even though North Korea has committed numerous provocative acts since the truce in

1953, it has been rare for North Korea to acknowledge, apologize, or express regret about such acts. Also in the statement, North Korea decided to lift the quasi-state of war declared for troops near the front lines.

As a consequence, the Korean government decided to stop all of its anti-North Korean propaganda broadcasts beginning at noon today along the DMZ, unless an abnormal situation takes place. It is analyzed that both sides dramatically struck an agreement, as they strategically judged that they will lose more than they gain if they continue a military confrontation. In particular, North Korea judged that the anti-North Korean loudspeaker broadcasts damage the dignity of its supreme leader. Under these circumstances, South Korean President Park Geun-hye virtually set a guideline in a meeting with senior secretaries held on

Aug. 24 while both sides were holding the meeting.

President Park came up with two principles – North Korea’s apology and promise not to commit such provocative acts again. The South Korean government made it clear that it will take strong measures unless North Korea accepts the two principles that the South Korean fairly demanded. The South Korean government showed a strong will not to engage in “talks for talks,” which can allow North Korea to shuffle out of its responsibilities.

It is generally analyzed that North Korea confirmed the strong stance of South Korea and showed a change in their attitude. President Park made it clear to North Korea that to stop provocative acts from repeating, it will be necessary for North Korea to offer a clear apology and promise not to repeat them. This means that President Park expressed her will to take stern measures against North Korea, while not allowing North Korea’s outdated thoughts and practices that produced some results by using a repeated “provocation, disguised dialog, compensation, additional provocation” strategy.

President Park took a hard line, saying, “Anti-North Korean broadcasts will not stop unless North Korea apologizes about North Korea’s demand to stop them” This has been the most important point for North Korea during the talks. It seems that such a hard line led to a change in North Korea’s attitude. The opposition parties insisted that the South Korean government create a mood for dialog, saying that North Korea’s threats may expand into full-scale war. But

eventually, President Park made North Korea propose dialog first.

The two Koreas exchanged wide-ranging opinions not only about breakthroughs in the recent tensions but also about measures for the development of South and North Korean relations in these high-level talks first proposed by North Korea. It is construed that both sides began to prepare solutions in non-military sectors such as economic cooperation, public welfare, the environment, and culture to say nothing of easing tensions in the military and security sectors.

It is highly likely that they discussed lifting the May 24 sanctions, the resumption of South Koreans' tours to Geumgang Mountain in North Korea, family reunions between the two Koreas, and the creation of a world-class ecological park for peace in the DMZ.

North Korea is expected to become more active, since even its economic exchanges with China are limited at a time when the international community is raising the level of its sanctions against North Korea's development of nuclear weapons and military provocations. The South Korean government is now able to expedite inter-Korean family reunions and the creation of an ecological park for peace in the DMZ. North Korea's forward-looking changes in its attitude may lead South Korea to grant a bigger economic cooperation deal to their northern cousins. 

From right: Kim Kwan-jin, chief of Cheong WaDae's National Security Office; Hong Yong-pyo, Unification Minister; Kim Yang-gon, director of the North's United Front Department; and Hwang Pyong-so, vice chairman of the North's National Defense Commission.



## Inter-Korea Cooperation

# Products Produced in Gaeseong Industrial Complex to Tap into Chinese Market

by Jung Suk-ye




Four delegates of Gyeonggi Gaeseong Industrial Complex Business Cooperative Association discuss establishing a platform to export products produced in Gaeseong Industrial Complex to Weihai City, China.

**T**he Gyeonggi Gaeseong Industrial Complex Business Cooperative Association is accelerating an entrance to the Chinese market. It announced on Aug. 17 that four of its delegates visited China from Aug. 14 to 16 and attended a meeting held in China's Weihai City by the Chinese Entrepreneur Federation.

Based on Weihai City, which is designated as trial city of Korea-China FTA, they discussed building the platform to export products produced in Gaeseong Industrial Complex to China. The platform is scheduled to start being built within this year.

With the Korea-China FTA, products manufactured in Gaeseong Industrial Complex can get customs benefits, since they are considered Korean-made products.

Gyeonggi Gaeseong Industrial Complex Business Cooperative Association Chairman Lee Hee-kun said, "Gaeseong Industrial Complex is recognized as an offshore manufacturing region. Since products from Gaeseong Industrial Complex are now considered Korea-made, companies of Gaeseong Industrial Complex will gain momentum to tap into the Chinese market."

Lee added, "Based on participating firms in the joint brand Sisbro at Gaeseong Industrial Complex, the foundation stone was laid to internationalize Hallyu products including clothing, shoes and accessories." Hallyu is a Korean word that refers to the Korean Wave, the phenomenon of Korean pop culture being popular outside of Korea. 



## Raising Korean Awareness

# Mix of Digital Tools, Traditional Performances Spreading Korean Culture Throughout the World

by Marie Kim

Business Korea sat down with Park Young-kuk, the director of the Korean Culture and Information Service, to speak about his organization, programs that they have run, and the idea of publicizing Korean culture to non-Koreans who already live in the country. What follows are excerpts from the interview.



Park Young-kuk,  
the director of the Korean Culture and  
Information Service

## Would you briefly sketch out the Korean Culture and Information Service?

The Korean Culture and Information Service was established in 1971 as an arm of the Korean government in charge of publicizing Korean culture and enhancing the image of Korea. The organization is operating Korean cultural centers in 28 regions, and dispatches cultural officials to 13 diplomatic missions abroad.

## It is understood that the Korean Culture and Information Service has made a lot of effort to inform the world of Korea's Great Journey in honor the 70th anniversary of Korea's liberation from Japan. Will you walk us through its major achievements?

Our organization went ahead with the participatory campaign Digital Peace Flag, which let Koreans and foreigners form a common bond about the meaning of the 70th anniversary of Korea's liberation, turning it into a message of peace and spreading it all over the world. In particular, we kicked off an international message relay, which passes the message

of peace via SNS on Aug. 15. In addition, we will hold a Digital Content Contest under the theme of "Peace" for people around the world from Aug. 21 through Oct. 4. We also invited 12 journalists from seven media companies in seven nations to publicize the meaning of the anniversary, and brokered interviews with the general manager for the 70th anniversary bash. In addition, we helped them report the special exhibition "70 Years and 70 Stories" at the National Museum of Korean Contemporary History, visited the Korea Institute for National Unification, and discussed the unification policies of South and North Korea.

Korea.net, a major multi-language portal site of the Korean government, carried a special story about the anniversary. We spread the meaning and value of Korea's liberation, such as events for the anniversary, via the Facebook channel "Korea Clickers," which has 457,000 fans. A total of 28 Korean Cultural Centers in 24 nations actively held hands-on Korean culture events, academic events, and seminars in commemoration of the anniversary. The Korean Cultural Center in Berlin, Germany, once divided, is

building a Korean Unification Pavilion on Potsdam Plaza. The pavilion is slated for completion this Oct. Its completion ceremony will be held with cultural events on Oct. 3, the 25th anniversary of the unification of Germany, or Nov. 9, when the Berlin Wall collapsed.

## The Korean Culture and Information Service has informed people around the world of Korean culture via a wide variety of programs. Would you tell us about key programs that your organization has implemented?

The Korean Culture and Information Service holds various cultural events on special occasions in overseas countries. Specifically, when the Korean President makes a visit to a foreign country as a state guest, we are contributing to publicizing Korean culture and enhancing mutual understanding and trust between the two countries as our support for summit diplomacy. For example, we presented fusion Korean music, a B-boy performance, and a Taekwondo demonstration at the Korea-Qatar Cultural Exchange Night on March 7 during the President's

## Discovering and Correcting Factual Errors about Korea

| Year   | Factual Errors  | Corrected  | Correction Ratio |
|--------|---|--|------------------|
| 2013   | 1,260   | 574  | 45.5%            |
| 2014   | 1,217   | 389  | 31.9%            |
| 2015.7 | 473   | 117  | 24.7%            |
| Total  | 2,950   | 1,080  | 36.6%            |
|        | including 146 errors discovered by the monitoring group | including 18 errors discovered by the monitoring group |                  |

tour of Middle Eastern countries.

Moreover, during the President's trip to Central and South America, we presented traditional Korean music performances such as Sinawi and Chimhyangmu, and a collaboration music performance between "Arirang" and "El Condor Pasa," a Peruvian ballad. These performances helped promote cultural exchanges between the two countries. In Brazil, by taking into consideration Brazilians' great interest in Korean fashion and pop music, we held a collaboration fashion show and presented a K-pop concert on April 24.

In Milan, Italy, we presented a B-boy show, modern dance, fusion music, a traditional drama, and Taekwondo demonstration at Manzoni Theater to show Korea's style and art to visitors from around the world during the Korean Week (June 22 to 29) of the Milan Expo held under the theme of "Feeding The Planet, Energy For Life." In the second half of this year, we will introduce high-class Korean culture and art by taking part in the Korean, Chinese, and Japanese Art Festival for cultural cooperation among the three countries in China in Sept. and the International Festival Cervantino in Mexico in Oct.

**In particular, events for Année France-Corée 2015-2016 will be held in Korea and France beginning this year. Would you explain the meaning of the events and major programs?**

Année France-Corée 2015-2016 will consist of over 200 events in various sectors such as art, sports, science, economy, and food. After the opening ceremony on Sept. 18, France will have a Korean Year in France for one year, and the

French Year in Korea will run throughout the year of 2016. Thirty-five years have passed since we opened the Korean Cultural Center in Paris and began to introduce Korean culture to France. It is the first time for Korea to implement events in various sectors and programs all over France thanks to cooperation between the two countries. This gives a very special meaning to Année France-Corée 2015-2016. A meeting between Korea and France designated 208 cultural and art programs as officially approved ones. A performance of Ritual Music at Jongmyo Shrine will be put on at the Theatre National de Chaillot in Paris on Sept. 18 and 19. Les Arts Décoratifs will host the Korean crafts show "Korea Now" from Sept. 18, 2015 to Feb. 14.


**It is more important to accurately inform the world of Korea even though it is necessary to enhance the reputation and national image of Korea. What has your organization been doing for this objective?**

The current rapid development of the media environment such as SNS leads to the variation of the forms and themes of misinformation about Korea. It also expedites the spread of wrong information and facts about Korea and reproduces them, triggering a call for the Korean government's responses to them. The Korean Culture and Information Service is actively monitoring popular websites such as those of foreign governments, international organizations, foreign media and maps, texts, publications, and printed materials for factual errors about Korea and having them corrected. We have found a total of 2,950 factual errors since 2013. Among them, we corrected 1,080 errors such as the use of the East

Sea, errors in writing the name of South Korea, and changing North Korea into South Korea. In addition, we are running a global monitoring group to correct such errors and publicize the Korean culture.

In addition, with the aim of providing correct information about Korea to 263 foreign correspondents of 101 media companies from 19 countries and visiting foreign correspondents. We have been running the Foreign Correspondent Support Center on the tenth floor of the Korea Press Center since June 24, 2013.

**It seems that it will be easier and more effective to publicize Korea to foreign residents in Korea. Are there any programs for them?**

As of Aug. 2015, Korea has 1.76 million foreign residents. So, they are emerging as major policy customers who publicize Korea internationally. Policy-based efforts should be made to help them go back to their home countries with good images about Korea. To this end, we are implementing a humanities study program through which foreign students studying in Korea and Korean students team up and carry out projects about themes in the Korean humanities. This program is expected to help foreign students deepen their understanding of the Korean humanities through discussion processes for Korean and foreign students. In addition, we are running UNESCO Cultural Heritage Tours, which let foreign opinion leaders such as foreign correspondents, diplomats, and businesspeople tour Korean cultural heritage sites eight times a year. Furthermore, we hold a cultural performance program named "Hello, Mr. K!," which visits areas densely populated by foreigners and introduces Korean culture to them four times a year. 



The South Korean government has worked on a project from 2013 to scout global talent for small and medium-sized enterprises (SMEs) that have difficulties in attract top-level human resources. According to software industry sources on Aug. 24, institutions and firms that recruited global talent through the project are seeing good results.

When SMEs select Korean talent abroad and apply for government support in order to carry out research and development projects, the government provides 70 percent of employment costs, or a maximum cost of 150 million won (US\$126,796), and other system expenses for up to five years through selection assessment.

Until now, a total of 38 talented global persons have moved into the country through the project. From this year, the third project in 2015 is under way, organized by the Institute for Information & Communications Technology Promotion (IITP). The way it works is that first, domestic firms and institutions choose workers from overseas firms, research institutes, and universities in the ICT sector who have working experience in



## Success

# Korean Government's Global Talent Scouting Project Finds It

by Jung Suk-ye

research and development. Then second, they apply for support, and the government decides whether or not to support them through a review.

An official from the industry said, "With the support from the government,

domestic SMEs see a virtuous cycle to tap into the global market by attracting global talent. Among the government's current projects to support the ICT industry, it is a project from which firms can receive direct benefits." 

## Unequal

# Foreign Workers Get Paid 20% Higher than Korean Workers

by Jung Suk-ye

It is found that real wages, including housing expenses, of foreign workers are 20 percent higher than that of Korean workers, despite foreign employees' lower productivity.

According to a survey called "Investigation on Requests of Foreign Workforce and Difficulties in Utilization," which was given to 774 small and medium-sized enterprises (SMEs) conducted by the Korea Federation of Small Business (KBIZ), 74.9 percent of the respondents said that they hired foreign workers


because it was difficult to employ Korean workers.

Based on basic and minimum wages, the payroll cost per foreign worker amounted to 1.92 million won (US\$1,598), which is 19.9 percent higher than that of Korean workers. This is largely due to "indirect labor costs." These companies spent an extra 16.4 percent of their payroll to offer foreign workers housing and meals for free.

As the SMEs also feel burdened with having to provide imported workers with



free housing and meals, in addition to the same minimum wage as Korean workers, the wage system needs to be reformed, including allowances in kind like costs for board and lodging being included in the minimum wage.

Also, most SMEs said that foreign employees have lower productivity than Korean workers. 

## Policy Necessity

# Finance Minister Says Wage Peak System Necessity, Not Choice

by Jung Min-hee

Choi Kyoung-hwan, the deputy prime minister for economic affairs and the Minister of Strategy and Finance, has urged public institutions to introduce the wage peak system as soon as possible.

"Among four structural reforms, the wage peak system is a core task applicable to the labor and public sectors," stressed Deputy Prime Minister Choi. He said, "This is not a choice but a necessity." His remarks were made in a meeting to check current issues of public institutions in the Gwacheon government complex on Aug. 5.

Choi explained, "The wage peak system is not the only way to resolve the youth unemployment crisis, but it can be a next-best alternative," adding, "The wage peak system for public institutions is different from previous measures in the sense that it aims to create new jobs by saving resources." He went on to say, "The system is significant in that it tries to offer regular jobs to young people without imposing a burden on the public."

Among 316 state-run organizations, 11 have introduced the system, including Korea Power Exchange, Korea Southern, Southeastern, and Western Power, and the Korea Elevator Safety Technology Institute. Another 315 public institutions are also discussing introducing the system or preparing to come up with a plan to do so.

The government is planning to encourage public organizations to complete the introduction of the wage peak system by the end of Aug. and to implement the system starting Jan. 1, 2016. With the retirement age extending to 60 starting in 2016, youth employment will



Finance Minister Choi Kyung-hwan speaks at a meeting of economic ministers in Seoul on July 2, 2015.

become scarcer amid a decrease in the number of retired people. Hence, the system can be interpreted as a government measure to minimize the problem.

Choi also remarked, "I urge large-scale institutions like the Korea Land & Housing Corporation and the Korea Railroad Corporation to lead the efforts in finding common ground between management and labor during Aug." His remarks can be understood in the same context of this policy direction.

The government predicts that 8,000 jobs will be created over the next two years through the introduction of the wage peak system by public institutions. Related to this issue, Seoul has included the cost of the system to a supplementary budget, and reflected 12.3 billion won (US\$10.5 million) in the form of funding that disburses 5.4 million won (US\$4,618) per person for 2 years to

organizations that hire young people.

In the meantime, the deputy prime minister noted, "As far as I know, KEPCO Engineering & Construction Company [KEPCO E&C] is actively seeking to create jobs for youth," asking other organizations to make an effort and pay attention to youth employment.

KEPCO E&C has already introduced a stepping-stone project for job-guaranteeing employment, aggressively seeking to create new jobs for young people. The project aims to offer training opportunities to small and mid-sized partner companies and to provide support for them so that those companies can hire 600 people over the next 2 years. The number of job-guaranteeing internships or those who will get preferential treatment after the end of their internship is expected to grow from 700 to 1,100 a year for the next two years. **BA**



## Unemployment Cliff

# Public, Private Sectors to Create 200,000 New Jobs for Youth by 2017

by Jung Suk-ye

The Korean government will join forces with businesses to create 200,000 jobs by 2017. The public and private sectors are waging all-out efforts to cope with the "youth employment cliff" that is showing signs of spreading ahead of implementing the obligation of extending the retirement age next year.

The government announced such measures at a public-private meeting headed by Finance Minister Choi Kyung-hwan at the Korea Chamber of Com-

merce & Industry building on July 24.

Ministers in related departments, including Finance Minister Choi and the leaders of the six leading business organizations, including the Federation of Korean Industries, signed a joint declaration of support and cooperation for the creation of new jobs for youth.

First of all, the government will create 53,000 jobs in the public sector by increasing the number of outgoing teachers under voluntary redundancy pro-


grams, introducing the wage peak system in state-controlled agencies and public firms and hiring public servants based on flexible work schedules.

In the private sector, 35,000 permanent jobs are to be created through the establishment of "Support System for Win-win Employment between Generations," along with 125,000 offerings of apprenticeships or internships.

The government will also revise the Labor Law in Sept. to extend the age range for young job seekers from the ages of 15-29 to 15-34 to help companies hire more young workers. A "Tax System for Increasing Youth Employment" will also be introduced to offer extra tax benefits to enterprises that hire more young job seekers compared to the previous year.

If the government's job-creation efforts go as planned, it expects the employment rate of young people aged 15 to 29 to rise 1.8 percentage points by the end of 2017, from 41.4 percent at the end of June this year. The plan, however, will not be any great improvement for youth employment if it does not achieve tangible results of at least 160,000 jobs created, or 76 percent of the total 210,000 jobs for youth assigned to the private sector.

"They youth will suffer more difficulties in getting jobs for the coming three to four years owing to the extension of the retirement age," said Finance Minister Choi, explaining the background of the measures. He continued, "The government has ironed out such bold measures to provide support in taxation and budgets, as the youth employment cliff could be developed to be a national issue."

The country's jobless rate for those aged between 15 and 29 reached 10.2 percent at the end of June, marking an increase of 0.9 percentage points from the previous month. The country's overall unemployment rate inched up from 3.8 percent to 3.9 percent over the cited period. As of April 2015, those unemployed in their 20s and 30s with no prior experience numbered 89,000 and 6,000, respectively, according to Statistics Korea. 





## Number One

# Incheon Free Economic Zone Gets Best FEZ Performance Evaluation

by Marie Kim



The newly-built Songdo International City in Incheon Free Economic Zone.

The Incheon Free Economic Zone (IFEZ) has topped the national free economic zones (FEZ) in an evaluation overseen by the Ministry of Industry for its performance during 2015.

On the 24th, the Ministry of Commerce, Industry and Energy (MOCIE) launched the 79th committee for economic free zones and finalized the evaluation of free economic zones for 2015.

According to the MOCIE, the evaluation targeted FEZs in Incheon, Busan/Jinhae, Gwangyang Bay, Daegu, Yellow Sea, Saemangeum/Gunsan, and Chungbuk. Incheon was ranked first, followed by Gwangyang Bay. The Busan/Jianhae FEZ made third.

In the 5 areas of business, organizational management, development projects, investment, and residential environment, the IFEZ received the highest scores. Only in the area of business support did Gwangyang FEZ score highest.

According to the IFEZ, it raised US\$1.714 billion of foreign direct investment (FDI), despite unfavorable econom-

ic conditions, due to the global economic downturn last year. This investment feat marks an 81.9 percent increase from 2013. The amount also represents 94 percent of total FDI in all FEZs in Korea. In addition, by creating another 136,000 jobs, the IFEZ contributed significantly to boosting the local economy.

In March of last year, as prestigious universities like George Mason University, University of Utah, and Ghent University opened in the IFEZ, it rose to prominence as a global education hub. In fact, the MOCIE previously pointed it out as an exemplary case for attracting investment.

The IFEZ is gaining momentum for more investments and development projects. In March of last year, the Ministry of Culture, Sports, and Tourism gave the green light to the development of a foreigner-only casino led by the Lippo and Caesar Consortium (LOCZ Korea), a venture between Chinese and American companies. In Nov., construction companies broke ground to build Paradise City. Hong

Kong investment group CTF submitted a letter to express its intention to invest.

In Cheongna International City, construction companies started building the Hana Financial Town in Oct. last year. With no bidders to come forward, IFEZ decided to lead the project to build the landmark project, the City Tower.

Difficult issues are also being resolved one after another. Controversies around the construction of a Korean-American town are now resolved. Also, the 6.8 district development project, which had been on the verge of nullification, is now back on track.

Deputy Head Kim Jin-yong said, "IFEZ's continuous efforts and strong will to construct a world-class residential environment made it possible for IFEZ to rank No. 1 in the evaluation for performance," adding, "We will continue to work hard until we will join the world's top 3 FEZs."

The FEZ that is ranked number one in the evaluation is awarded 520 million won (US\$443,554). ●





## Hallyu Tourism in Crisis

# Korean Government Boosts Tourism Industry through Special Events, Deregulations

by Jung Suk-ye

The number of foreign tourists visiting Korea surpassed the 10 million mark in 2012, which happened 30 years after the figure exceeded one million for the first time in history in 1978, recording 1.08 million. Its figure last year was over 14 million, an increase by more than 16 percent compared to 2013. It was the biggest increase since 2004 when recorded 22.4 percent. The number of tourists has seen double-digit growth since 2009 except 2013 of 9.3 percent.

Such performances have been mainly due to the increasing tourists from China. According to the Korea Tourism organization (KTO), the number of Chinese

tourists to Korea last year reached over 6 million, accounting for 43 percent of the total foreign arrivals in Korea.

In addition, the 6 million Chinese visitors spent approximately US\$9.6 billion (10.54 trillion won), accounting for 55 percent of its total tourism income of US\$17.6 billion (19.32 trillion won).

For the rapid increase of Chinese tourists to Korea, Hallyu or the Korean Wave has played a great role. Hallyu entered a golden age with Psy's song "Gangnam Style" in 2012 and the drama "My Love from the Stars" in 2013 gaining huge popularity. The Korean government declared the "3.0 Hallyu Gen-

eration" in 2012, promoting "K-Culture" projects to expand Hallyu culture previously led by dramas (1.0 generation) and pop music (2.0 generation).

## MERS Curse

In May this year, however, the breakout of Middle East Respiratory Syndrome (MERS) brought Hallyu to a standstill. Cultural events were called off, and medical tourism virtually stopped.

Medical tourism in particular took a direct hit from the MERS situation. The number of medical tourists to get cosmetic or other kinds of surgery drastically decreased. An associate at HanaTour remarked, "There are no new tour reservations for July or August."

As a result of the spread of MERS, the number of tourists to Korea reached just 750,000 in June, a 41 percent decrease from a year earlier. In particular, the number of tourists from the Chinese-speaking region showed a sharp decrease, with tourists from China plunging by 45.1 percent to 310,000, those from Taiwan by 75.7 percent, and those from Hong Kong by 74.6 percent, according

to the KTO.

## Trying to Bring China Back

Under such circumstances, two Chinese firms launched a promotional campaign to encourage some 100,000 tourists to visit Korea. Wanda Tourism, an affiliate of Chinese property conglomerate Dalian Wanda Group, and online travel agency Tongcheng Network Technology launched the campaign. The campaign was to entice the tourists to visit South Korea within 100 days, starting in mid-August this year.

The local tourism sector also joined hands with the Korean government to revive the nation's tourism industry. Including Korean Air, the Hotel Shilla, Lotte World Mall, SK Group, the local tourism related companies arranged a number of familiarization tours and special events particularly for Chinese media, portals and power bloggers. Korean Air has been carrying out large familiarization tours also for Japanese and Southeast Asian tourists.

With such efforts of private sector coming out, the government on July 9 announced to hold the annual "Korea Grand Sale" event, which usually takes place during winter, in Aug. this year. Also, it said that group tourists from China, Vietnam, and the Philippines will be exempted from their US\$15 (17,316 won) per person visa application fee until the end of Sept.

Participating companies also offer

special sale events, such as buy-one-get-one-free deals, buy-two-get-one-free deals, and discounts of more than 50 percent. Packages are offered that bring together various industries including airlines, accommodations, food and beverages, and beauty, and combination products between culture and arts and shopping tours.

## Tourist Satisfaction Must be Made

Chinese tourists, the most attractive customers for the Korean tourism industry, tend to purchase a small number of products in large quantity in Korea. They spent an average of US\$379 per day, which is US\$89 higher than the overall average of all inbound tourists. The total expenditure per visit was US\$2,271 for the Chinese and US\$1,648 for all inbound tourists. 53.8 percent and 42.8 percent of them opted for free independent travels and group tours, respectively. The others selected airtel tours.

Nevertheless, Chinese tourists were not completely satisfied with their travel in Korea except for the shopping. "Hallyu in China is increasing the brand value of Korea there to get more people interested in Korean clothes and beauty products," said Mr. Lee Sung-tae at the Korea Culture & Tourism Institute, adding, "We need to work on more products and positive images to better suit their needs."

In particular, the medical tourism industry of Korea is said to be now at a crisis, as public opinion in China, the

number one customer, is getting worse. The risk and the number of cases of serious medical accidents have been on the rise as more medical tourists have plastic surgery in Korea.


Fortunately, though, the majority of Chinese people still have a positive image about Korea's medical technology and skills. Korea has a competitive edge in price, too. A laser-based wrinkle treatment costs approximately 10 million won (US\$9,065) in China, but just 1.5 to 2 million won (US\$1,360 to \$1,813) in Korea.

This means the prosperity of medical tourism depends on the efforts of the Korean government to address problems such as illegal attraction of tourists by unregistered firms and hospitals' direct transactions with unregistered foreign firms.

Amid such booms of Chinese tours to Korea, however, concerns have been growing about the Korea tourism industry's increasing dependence on the Chinese market, the weak yen and the weak yuan. These factors are expected to put a strain on the government, which has a target of attracting 20 million foreign tourists a year by 2017.

## Deregulations: Doors Wide Open

In the meantime, the Korea government has made efforts to boost the tourism industry by relaxing regulations. Earlier in 2014, President Park Geun-hye deliberated on and fixed 135 specific measures to deregulate and promote seven service industry segments, including tourism, healthcare and medical.

As part of it, on Jan. 18 this year, the government released an investment promotion plan for tourism infrastructure and corporate investment. The government allowed domestic investors to participate as major shareholders in the casino-included resort complexes by repealing the foreign shareholding ratio regulation of 51 percent. This means that any entity, including major business groups such as Samsung and Hyundai, can take part in the projects in fair competition. 



The streets of the Myeongdong district of Seoul were quite crowded every night with many tourists in 2014.



## Tourist-friendly Policies

# MCST Implementing Plan for 20 Million Tourists to Korea

by Marie Kim

Kim Geun-ho is the director of the International Tourism Division at the Ministry of Culture, Sports and Tourism. Business Korea spoke with him during these days of decreased tourism income to ask about what his division was doing to return to the status growth of tourism growth. His answers provided insights into a future where Korea sees 20 million tourists, or more, each year.



Kim Geun-ho,  
the director of the International Tourism Division  
at the Ministry of Culture, Sports and Tourism

## How many tourists visited Korea last year, and how do you estimate its economic ripple effects?

A total of 14.2 million foreign tourists visited South Korea last year, up 16.7 percent from a year earlier. Accordingly, its tourism revenue is estimated at nearly US\$18 billion won [21.19 trillion won], up 24.4 percent from a year ago. The tourism market is constantly growing, as an increasing number of Chinese tourists are visiting Korea, and more and more visitors from Southeast Asia are coming to Korea due to Hallyu, or the Korean Wave.

## How much has Korea's tourism industry been affected by the outbreak of Middle East Respiratory Syndrome (MERS) in May this year, and when do you think it will be normalized again? Also, what kind of measures do you have in place to do so?

The tourism industry in Korea had maintained a monthly average growth of 11 percent until May, compared to last year. As the figure decreased in June and July due to the emergence of MERS,

however, the number of foreign tourists visiting Korea stood at 7.3 million until July, down 8.5 percent from last year.

Our ministry has been actively taking measures to reinvigorate the market, and the industry is posting an increase in new reservations. With this positive trend, Korea's tourism industry is expected to recover to the same level of the previous year by Sept.

**In order to do so, the government has been making every effort to attract Chinese tourists that Korea's tourism industry heavily depends on. However, some still say that there is no infrastructure enough to accommodate them. It seems that this is a time to think about the qualitative development as well as the quantitative growth. Please tell us what kind of measures you have been taking and what the future plans are.**

Since China is one of the fastest-growing markets in the world, it is true that it needs some qualitative improvements due to rapid growth. So, we have been operating the system to renew the

licenses of travel agencies in charge of Chinese tourists since 2013. Also, we are pushing various policies such as abolishing a system to sell foreigners-only souvenirs in order to improve market distortion, cracking down on relevant disorderliness, and training tourist guides and interpreters.

Moreover, the government will share market information with the Chinese government and discuss joint counterplans, running a working-level consultative body. It is also planning to closely cooperate in a bid to enhance the quality of tourism products in the two countries.

In addition to this, we are developing tailored tourism products so that foreign tourists, including Chinese tourists, can see and learn more about Korea using Big Data, and promoting the convergence tourism industry, including the meetings, incentives, conferences, and exhibitions, Hallyu and medical care, as part of the strategy for qualitative growth in the tourism industry.

In particular, the ministry will operate a tourism content development council to develop customized products that suit the taste of tourists, including Hal-

lyu, higher-value-added and interactive content, and continuously expand attractive tourism content for them.

Furthermore, we plan to operate a support system to promote the MICE industry, such as international conferences and incentive travel, which has a great ripple effect as a related industry, to carry out marketing campaigns at home and abroad, create a business base including training a professional workforce and industrial statistics, to create the Hallyu tourism industry base, and develop products by constructing K-Pop concert halls and complex cultural facilities, and to support the convergence tourism industry, such as the expansion of marketing campaigns to attract higher-value-added medical tourists.

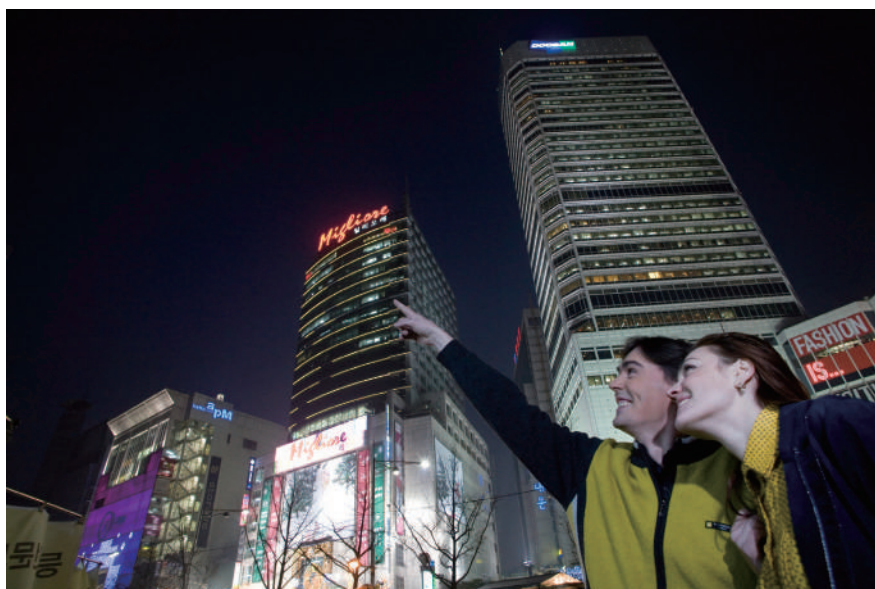
**The tourism industry expects that**

**the number of foreign tourists will reach 20 million in 2017. For sustainable growth through revisits, we need full-fledged hardware but need to work more on improving software, like services. It seems that the government's monitoring and guidance are needed to do this.**

Our ministry has been implementing the policies to expand foreign tourist attractions by improving the quality for the Chinese market and diversifying the market, and to intensively foster the convergence tourism industry, including MICE and Hallyu. Through this, we have recently seen a high growth rate with more than 10 percent every year. Although tourist arrivals in South Korea have plunged due to the MERS outbreak, we are planning to pursue various poli-

cies more actively in a bid to accomplish the goal of 20 million foreign tourist arrivals.

Also, we will proceed with a "Visit Korea Years 2016 to 2018" project, connecting with the PyeongChang 2018 Winter Olympics, an international event to improve services focusing on tourism, such as accommodations, transportation and food, in order to strengthen Korea's tourism industry abilities. To create a foundation to promote the project in earnest, we are carrying out "Friendly Korea" campaigns, providing warm hospitality service education programs, and holding joint promotions with private firms this year. Moreover, we will form a K-Smile campaign headquarters in order to raise the nationwide consciousness of kindness and keep creating a welcoming atmosphere for foreign tourists. 





## Experience Management

# STO President Ensuring Lasting Good Impressions of Seoul, and in Seoul

by Matthew Weigand

In the context of the drop and now coming recovery of the tourism industry in Korea, Business Korea was able to interview Kim Byung-tae about his short-term and long-term plans for his new position as the president of the Seoul Tourism Organization. He gave his insight into the current recovery steps, and specifically what his office was doing to help.



Kim Byung-tae,  
president of the Seoul Tourism Organization.

## You are new to this position. Can you tell us a little bit about yourself, and about what you were doing before this position?

I am new to the position of President and CEO of Seoul Tourism Organization – charged with marketing the city globally to attract tourists and MICE events.

I come from decades of experience in the travel, culture, and tourism fields. I was previously CEO at BT&I, one of Korea's major travel management companies. I have also led the classical music academy Pung Wol Dang and advised for the Kim Chong Yung Museum. I look forward to combining all of my past experiences and insight into my new role to establish Seoul as an attractive city for both our leisure visitors and a compelling destination for business events.

## What are your short-term and long-term goals for the Seoul Tourism Organization under your leadership?

The top short-term goal is to reinvigorate tourism in Seoul as we continue to recover in the aftermath of the recent MERS outbreak here.

Immediately following the outbreak, we made a concerted effort in reviving tourism arrivals from East Asia, China, and the surrounding regions from which we experienced a major drop in numbers. I joined Mayor Park Won-soon on a tour in early Aug. to three major Chinese cities to encourage visits to Seoul, and we met with major travel agencies, related industry organizations, and the public to alleviate concerns. The Seoul Convention Bureau also participated in IBTM China in Beijing, a major exhibition for buyers and event planners for business events, at the same time. At IBTM China, we were encouraged at the number of individuals and organizations who came to our Seoul booth expressing interest in bringing events to Seoul.

Also after the outbreak, I put two new projects into service: our online MICE Help Desk message board and 24 hour phone Hotline. These new services were created to better facilitate communications between the Seoul Tourism Organization and the public, including business event organizers, who may require quick and expedited responses during unpredictable times. The MICE

Help Desk can be accessed through our MICE Seoul homepage ([www.mice-seoul.com](http://www.mice-seoul.com)), while emergencies can be directed to the 24-hour Hotline number at +82-2-3788-8151.

In terms of long term goals, I'd like to diversify our offerings and draw in visitors from other long-haul markets beyond the Asia Pacific. We've been fortunate that interest and passion for Korea and Korean culture has increased tremendously in the last decade, and we want to foster added interest from other regions such as Europe and the Americas. I also want to ensure that the overall quality of Seoul's offerings and visitor experience continues to improve for all visitors and organizations coming to Seoul so that we're not only attracting new visitors but increasing the number of returnees too.

## What do you think is the best way for Seoul's tourism to recover from the MERS scare of this summer?

To continue the strong PR campaign that Seoul has embarked on to emphasize that Seoul is open for business as usual, while drawing attention to a number of our upcoming events. We recently

wrapped up our nearly-two-months-long Seoul Summer Sale and are working on an exciting K-Pop mega concert in Seoul City Hall's plaza, the Seoul International Fireworks Festival, and the Seoul Lantern Festival.

We've also targeted business events by expanding qualifying conditions for existing business support programs, while offering new ones as well. It's now easier than ever for business groups to qualify for our many services such as MICE supporters, promotional materials, and even financial support.

For business groups holding their events in Seoul, we want to provide a particularly warm welcome, which is why we are currently offering a package of three offerings that includes meal credit of up to 10,000 won (US\$8.45) per person, a coach bus for a tour of Seoul, and up to 3 million won (US\$2,536) to watch a performance in Seoul. We have also reserved 1,000 seats for the upcoming K-Pop mega concert in the plaza of Seoul City Hall and on a special cruise boat on the Han River during the Seoul International Fireworks Festival. Business event groups with more than 50 individuals staying at least two consecutive nights in Seoul between now and June 30, 2016 can apply on our MICE Seoul homepage ([www.miceseoul.com](http://www.miceseoul.com)) for these new programs, before Sept. 30.

**Your organization's web site emphasizes conventions and expos in Seoul. Can you explain the significance of the convention industry to Seoul, and how it is related to tourism?**

Within Seoul Tourism Organization, our Convention Bureau is charged with marketing Seoul to the four major segments of the business event industry, those being Meetings, Incentives, Conventions and Exhibitions. While these all use some tourism infrastructure, these "MICE" events are considered a distinct and very important industry, not just for the short-term economic impact, but for the long term legacy they create for Seoul in the years leading up to and after the event.

The International Congress of Mathematicians hosted in Seoul 2014 is a great example of this. The event, which drew 5,200 delegates from 122 countries, of course generated tremendous economic impact for the eight days it was held in Seoul, but it also gave lasting impressions such as inspiring the government to enact policies focused on improving ties between the business and mathematical fields, as well as a foster program to nurture promising local mathematicians.

And with each successfully-hosted major business event in Seoul, our expertise grows in accommodating the needs and wants of different individuals and organizations from all over the world. This in turn enables us to truly be not only a complete convention city but a complete city overall.


**What can Seoul and the companies that call Seoul home do to make it a better tourism destination, in your opinion?**

I am a strong believer in the power of partnership and its synergy. It's what led me to write my 2012 book, "Partner With Everything in the World." I believe Seoul and the companies within need to find as many avenues to come together as possible, across all industries and fields. In doing so, we increase our efficiency, better our offerings for visitors, and minimize overlap so that we can build upon

our collaborative work. Partnership is why I have great pride in our support services like our Seoul MICE Alliance – our partnership between Seoul's government agencies and private companies to bolster Seoul as a business event city – and our MICE supporters who provide integral support for events.

**Thank you for your insights. What do you think are some of the most attractive places in Seoul for tourists now?**

With autumn on the horizon for Seoul, the Namsangol Hanok Village will soon be brimming with vibrant colors from the leaves and providing a quaint setting against the traditional hanok. Particularly, I recommend the traditional Korean music venue Gugakdang within it, for its unique design including being partially underground. Starting in mid-Sept., they will be starting their weekly courtyard traditional Korean music performances every Wednesday as well.

I also recommend the Seoul City Wall for offering some of the best views of Seoul. The old city walls offer a number of trails and paths that take you by many historic sites and great views. And, along the way, it's a great way for visitors to experience the hospitality of locals who will be eager to share in conversation, food, and friendship. 



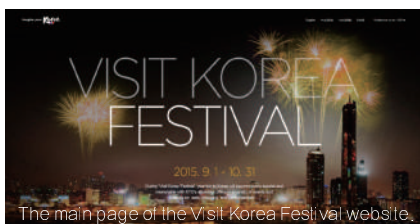
Kim Byung-tae, president of the Seoul Tourism Organization, poses with his office on the occasion of his appointment to the position on June 29, 2015.



## Visit Korea

## KTO Launches the 100-Day Tourism Campaign

by Marie Kim



Despite the government's announcement on July 28 that the MERS outbreak had come to an end, the domestic tourism market, especially the rate of tourists from China and Japan, does not seem to be recovering as quickly as many hoped, which prompted the Korean government to take concrete actions to fight the slump.

In a bid to reinvigorate the stagnant tourism market the Korea Tourism Organization (KTO, CEO Chung Chang-soo) launched a campaign on July 15 called the "100-Day Tourism Campaign." As much as the campaign is intended for the largest tourist markets in China and Japan, the first and last dates of the campaign were carefully chosen to match Japanese Thanksgiving Day in Aug. and the Chinese national holiday in Oct.

Given that the main purpose of the campaign is to allay foreign tourists' concerns about MERS and spread the news that traveling to Korea no longer poses a threat of deadly disease, the KTO particularly worked hard to bring as many influential foreign media leaders and CEOs of the largest travel companies on board as possible. The campaign is also designed to highlight the special charms about travel to Korea that differentiate it from other countries. To this end, the KTO is hosting a tour event targeting 100 Chinese journalists, 50 media professionals from 9 Southeast Asian countries, and 100 female Japanese journalists. The

KTO also invited major CEOs of Chinese, Japanese, and American travel companies in the business of developing and selling tourism products.

In Aug. and Sept., the KTO is organizing a "fam tour" titled "Safe Korea". Fam tour is a abbreviation of familiarization tour. It involves hosting a travel agent tour, the promotion of travel products, and increasing the knowledge about destination. The KTO's intention is that when these opinion leaders experience Korea first-hand, they will rapidly spread the news about the safety of traveling to Korea to their readers and clients, and also reflect it in their policies.

## Online Campaign and Multilingual Tourist information Center

From Sept. 1 to Oct. 31, the KTO will be running a multi-language website titled "Visit Korea Festival" at [www.visit-korea.or.kr](http://www.visit-korea.or.kr). This is the online component of the 100-Day Campaign that features an online information center for foreign tourists. Apart from general up-to-date tourist information, the Visit Korea Festival website highlights all types of shopping benefits, commercial prizes, and discounts for concerts and performances. In particular, the website promotes government-run and certified accommodations like Benikea and Korea Stay. For instance, Benikea is a hotel chain operated by the KTO in association with the Ministry of Culture, Sports, and Tourism that provides premium accommodations at a reasonable price. Koreastay is a home stay service, which home stays are carefully selected by the KTO via a rigorous assessment of such criteria as residential environment, cleanliness, and service.

## Catering to Specific Markets: Taiwan Market

The 100-Day campaign also includes a country-specific campaign. Titled "Pleasant journey filled with lucky benefits", this Aug. 30 to Nov. 30 Taiwan-specific campaign has KTO joining hands with 13 Taiwanese airlines and 27 travel agencies.


The Taiwanese market is the fourth-largest market following China, Japan, and the U.S. that sends tourists to Korea. Nevertheless, during the MERS outbreak, the Taiwanese market shrank by around



A guest house registered on Benikea's list.

75-85 percent.

The main feature of this campaign is to award discount coupons and traveling-necessities to those who buy an "Airtel" package. Airtel refers to a tourist package that combines an airline ticket with hotel service. KTO offers 100,000 to 1,000,000 won (US\$85 to \$847) worth of travel grants to 130 groups or organizations selected through a lottery.

Lee Jae-sung, the director of the International Tourism Division, commented, "During the 100-day campaign, the KTO is going to mobilize all of its capabilities to reverse the slump," adding, "our focus is to maximize the commercial opportunities during the important holidays in Japan and China, the Japanese Thanksgiving in August and National Holidays in China in October." 



Taiwanese brochure about traveling to Korea.



## Korea Grand Sale

# A Magical Shopping Event Starts Aug. 14

by Marie Kim

The Korea Grand Sale is going to be held for the purpose of restoring tourism and revitalizing the domestic economy. Scheduled to be held from Aug. 14 to Oct. 31, the event will give away unprecedented benefits to visitors. A pre-Korea Grand Sale event will start a week before the grand opening of the main event (on Aug. 21) and start giving away benefits relating to accommodation and shopping to visitors.

Although the Visit Korea Committee (Chairman Park Sam-gu) usually holds a Korea Grand Sale during the off-season winter months, organizers decided to move up the date to revitalize the tourism industry. There is high anticipation for a public-private partnership as a large number of relevant government organizations including Ministry of Culture, Sports and Tourism; Ministry of Strategy and Finance; Ministry of Trade, Industry

and Energy; Ministry of Land and Infrastructure; Ministry of Health and Welfare; Korea Customs Service; Visit Korea Organization; Korea Airports Service; Incheon International Airport Corporation; the Federation Korean Industries; and other relevant organizations participate.


As of Aug. 3, despite a short recruitment period, as many as 222 companies in diverse industries and 20,519 businesses have applied for participation. Unprecedented benefits including a 70 percent discount airfare for Jeju Air; a 50 percent discount pass for Everland; up to 80 percent discount of any purchase at Lotte Duty; and one free night after one night's stay at the Junior Sweet Room of Ibis Ambassador Seoul Myeongdong. For the purchase of any popular item at Olive Young, one will get as much as a 50 percent discount. North Seoul Tower,

one of the most popular tourist attractions, and Korea Grand Sale will together offer a coupon which will give users a 40 percent discount on admission.

Apart from shopping options, the Korea Grand Sale will offer foreign visitors a variety of cultural experiences including an "original drawing show" and popular non-verbal performances at 50 percent discounted prices. The Korea Grand Sale intends to spread the knowledge of discount admission to palaces and museums which are offered on the Wednesday of every fourth week, the Cultural Day. In addition, by introducing foreigners to a traditional Korean market and a variety of tourist options, the Korea Grand Sale intends to make Korea a place that foreign visitors want to come back to in the future.

The opening ceremony marking the beginning of a welcome event will take place in Gwanghwamun Square, Incheon Airport, and Gimpo Airport on Aug. 14 simultaneously. In line with the theme "Magical Shopping Event and Festival," the event will have a separate prize event which will give away magic boxes. Sponsored by participating companies, the Korea Grand Sale will also have a special theme week featuring "Must-See," "Must-Do," "Must-Buy," and "Must-Eat" things, and give away many benefits.

Meanwhile, in a bid to spread the knowledge of exceptional benefits offered at the Korea Grand Sale, organizers have been running advertisements on the largest Internet Portal in China, Sina.com, and other influential foreign media channels since July. In addition, the Korea Grand Sale will host briefings on Korea as a tourist destination, targeting travel companies and media from China, Japan, Taiwan, and Hong Kong.

Han Kyung-ah, the secretariat of Visit Korea Committee, said, "The Korea Grand Sale is a great opportunity to escape the slump in the tourism industry and seed for a new hope." She added, "We will make every effort to make sure foreign visitors have a variety of experiences that are not limited to just shopping but are comprised of cultural experiences and various forms of festivities." 



## Hana Tour

## Working to Make Best of MERS Aftermath

by Marie Kim

The tourism industry took a direct hit from the spread of Middle East Respiratory Syndrome (MERS). Lots of package tours from China and Taiwan were canceled, and travel agencies there are reported to be facing a barrage of phone calls from travelers who booked flights to Korea wondering, whether it is safe to make the trip. A spokesperson at Hana Tour said, "Rumors spread in China that the situation is far worse than the media are reporting, and this has prompted travel agencies there to cancel tour programs to Korea." In fact, tour agencies in Korea have taken a direct hit after thousands of Chinese have canceled their trips to Korea over growing fears of the contagious disease. Despite the government's announcement on July 28 that the MERS outbreak had come to an end, the domestic tourism market, especially the rate of tourists from China, does not seem to be recovering as quickly as many hoped, which prompted companies in the industry to take concrete actions to fight the slump. In an effort to allay the concerns of Chinese tourists about MERS, Hana Tour, the biggest tourist company in Korea, joined hands with Asiana Airlines to host a tour event for a Chinese delegation comprised of China's largest tourist companies and media. Korea Tourism Organization, Incheon International



Mayor Park Won-soon speaks to the Chinese delegation on the tour event hosted by Hana Tour.



The Hana Tour Building in Insa-dong, Seoul.

Airport Corporation, and Lotte joined in planning the program for the event, which lasted from Jul. 15 to 19.

The Chinese delegation consisted of 150 CEOs of China's best-performing travel agencies, journalists, and 50 of China's most influential bloggers. During the three night and four day stay, they went sightseeing at tourist attractions and look in every nook and corner of Seoul to ensure that there was no more threat from the deadly epidemics. The major events include touring of the streets of Myeong-dong, the most popular tourist district in Seoul, a buffet served on a cruise ship, and a visit to an aquarium at Jamsil's Lotte World. A meeting with Park Won-soon, the mayor of Seoul, was also included in the program.

On the more proactive side, Hana Tour is planning to utilize the popularity of Korean entertainment content among Chinese tourists in boosting both the company's duty-free and tourist business-

es. For this, Hana Tour signed an MOU with IHQ CUBE Entertainment, an entertainment management company based in Korea. The company's current roster of entertainers includes Rain, Huh Gak, A Pink, and Hyuna.

With the combined resources deriving from the tourism, duty-free, and entertainment businesses at hand, Hana Tour is planning to provide cultural and entertainment products at the company's duty-free stores in Insa-dong. The company considers that this will serve to make the shopping experience more unique and fun.

In July, the Hana Tour-led consortium won a license to run a duty-free store in Seoul. Hana Tour is going to turn its headquarters in Insa-dong into a duty-free outlet and open it in Jan. next year. Nestled near big tourist attractions like Gyeongbokgung Palace, the duty-free outlet in Insa-dong is expected to play a crucial role in shaping the shopping and tourist trends in the area. **BK**

## Busan Paradise Hotel

## Trading in Fear of Epidemics for Holistic Healing

by Marie Kim

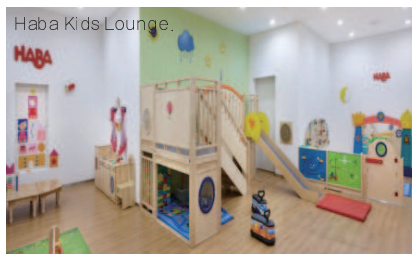


The Paradise Hotel in Busan.

The scorching heat and humidity of July and Aug. in Korea signal that it's time to get away from daily responsibilities and set off for white sand beaches or lush green mountains. Nevertheless, the summer this year was exceptional.

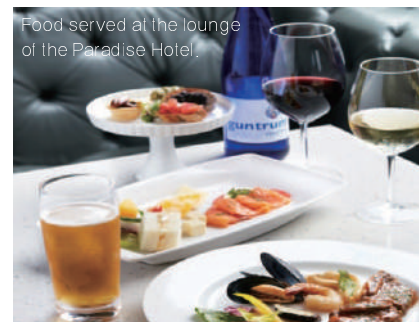
Called “sixty-eight days of war” by Korean locals, the outbreak of the Middle East Respiratory Syndrome (MERS) in the summer of 2015 took a heavy toll on the Korean tourism and hotel services. Panicked local people avoided public areas during the MERS outbreak, and foreign travelers canceled trips to Korea during the peak season from June to July, which put a damper on the already stagnant local economic performance. Tour companies relying on inbound travelers were hit the hardest, and reported reduced sales and profits during the peak summer season.

However, some hotels in Busan turned out to be less severely affected by MERS. The Paradise hotel in Busan was one of them. Although the turnover in June reflects a nationwide impact of the fear of the infectious epidemic, the situ-




ation improved so quickly that even the late Aug. turnover witnessed a 10 percent increase compared to the same period the previous year. The spokesperson for the Paradise Hotel commented that the increase is probably an indication of pent-up demand suppressed in June. He also added that taking late or off-season vacations is emerging as a new trend, as people seek to avoid crowded beaches, congested highways, and overpriced restaurants during the peak season between late June and early July.

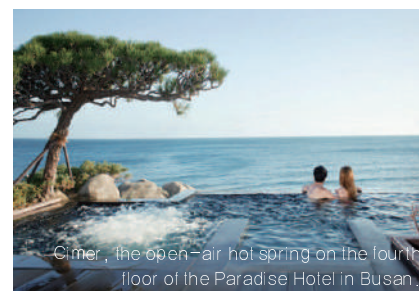
So, the Paradise Hotel has planned a number of promotional events. Given the hotel's popularity as a family vacation destination, it planned fun and educational activities where both parents and kids can participate and have a fun



time together, such as a fish cake-making events and music classes led by music instructors from Yamaha. The hotel has also separately made a space just for kids furnished with HABA toys and teachware, a German premium toy brand. The Haba Kids lounge promotes fun and creativity all year round.

Especially for the late vacation season, the hotel is providing a special deal called the “Lounge Paradise Package” from Aug. 18 to 31. Priced 300,000 won (US\$253), the deal features one night in a newly-renovated guest room and a day pass to use many of the hotel's amenities. For instance, the deal includes all day food services at the lounge, which includes breakfast buffet, dessert and light snacks in the afternoon, and some alcoholic beverages during the evening happy hour. The deal also comes with a day pass for the open-air hot spring, kid's lounge, a gaming lounge equipped with Sony Playstations, and the city tour service.

The open-air hot spring named Cimer on the fourth floor is the number one destination for those who want to enjoy a seaside view while relaxing outside in the tub. Bordering Haeundae Beach, the hot spring has a gorgeous view of the ocean, Oryukdo Island, and Dongbaekseom Island. Guests can relax, unwind, and take in the beautiful surroundings. 



Cimer, the open-air hot spring on the fourth floor of the Paradise Hotel in Busan.



## Lower Growth

# Korea's GDP Growth Stays below 1% for 5 Consecutive Quarters



by Jung Suk-ye

The national economy posted growth of less than 1 percent for five consecutive quarters amid the protracted slump in local consumption and weaker exports. Since peaking at 1.1 percent in the first quarter of 2014, quarter-to-quarter growth has stayed below 1 percent — 0.5 percent in Q2, 0.8 percent in Q3, 0.3 percent in Q4, and 0.8 percent in the first quarter of 2015.

In particular, the second quarter marked the weakest quarter growth in six years since the 0.1 percent in the first quarter of 2009, which was affected by the global financial crisis.

This time, the recent Middle East Respiratory Syndrome (MERS) scare undermined consumer sentiment, contributing greatly to pulling down the growth to 0.3 percent in the second quarter. Private consumption dropped 0.3 percent. The drought also plunged 11.1 percent from the first quarter.

The lower-than-expected growth

is raising concerns that it may miss the Bank of Korea's latest yearly growth forecast of 2.8 percent, leading the nation's economy to face a longer-than-expected low-growth period.

The central bank, which cut the benchmark interest rate to a record low of 1.5 percent in June, has revised its outlook on year-on-year GDP growth from the earlier 3.1 percent to 2.8 percent. The central bank has cut its key rate four times since August last year to support growth.


The government also announced its fiscal stimulus plan to arrange 22 trillion won (US\$19 billion) this month.

Analysts say that slow growth, despite massive pumping measures by the government, means that the nation is stuck in a low growth trap.

The pace of economic growth is slower in Korea than in many other countries lately. From April to June this year, the quarter-on-quarter economic growth rate of Korea was lower than

those of fiscal crisis-stricken countries such as Greece and Spain.

Korea's economic downturn was particularly severe, although most of the developed and developing economies around the world are going through hard times these days. Specifically, China reached 1.7 percent in the second quarter, while that of Hong Kong and Taiwan were 0.4 percent and 1.59 percent, respectively. Indonesia recorded as high as 3.78 percent, and Malaysia's figure was 2.6 percent. Japan and Thailand showed a negative growth of 0.4 percent and 6.44 percent each.

Korea was outperformed even by the southern European countries that have gone through fiscal crises. Greece posted a growth rate of 0.8 percent during the same period, while Spain increased its real GDP by 1 percent, the highest rate of increase in eight years. Britain, Hungary, and Germany reached 0.65 percent, 0.5 percent, and 0.4 percent each. 



## Gloomy Outlook

# Korea's Per Capita GDP May Not Reach US\$40,000 until 2023

by Jung Suk-ye

An analysis has come out that the nation's per capita gross domestic product (GDP) this year will decline for the first time in six years after the global financial crisis in 2008, owing to the weak won and much lower than expected growth.

The LG Economic Research Institute, the research arm of the LG Group, forecast on July 27 that Korea's per capita GDP in 2015 will fall to US\$27,600, down 1.8 percent from US\$27,960 in 2014. The previous forecast had the per capita GDP staying at the US\$20,000 level for the tenth year, after surpassing the US\$20,000 mark in 2006. The

per capita GDP was expected to surpass US\$30,000 early this year.

The think tank attributed this year's fall to the appreciation of the U.S. dollar against the Korean won. The per capita GDP, which is a dollar-denominated index, decreases when the Korean currency depreciates against the U.S. dollar. The average won-dollar exchange rate in the first half of this year rose to 1,099 won per dollar, up a 4.4 percent increase from 1,053 won in the same period last year.


The think tank also said that the sluggish recovery in domestic demand due to the fears of Middle East Respiratory Syndrome (MERS) is hindering the

nation from reaching a 3.0 percent level growth and the US\$30,000 mark in per capita GDP, a long-standing goal of the government.

The report came about three weeks after the Bank of Korea lowered the country's annual growth forecast to 2.8 percent from its earlier 3.1 percent on July 9.

The outlook is also not bright. South Korea may only reach a per capita GDP of US\$40,000 by 2023 if the country continues its low growth, the Korea Economic Research Institute said, citing the OECD forecast that if South Korea's potential growth rate falls to 2.9 percent, it would take 17 years for the per capita GDP to rise from US\$20,000 to US\$40,000. South Korea reached US\$20,000 in 2006.

Waiting 17 years would be longer than the OECD average, which is 13.6 years. Among the G7 nations, Japan, Italy, and the U.K. took 8, 13, and 14 years to reach US\$40,000, respectively.

Korea's potential growth rate would also remain at 3.59 percent in 2015, 2.9 percent in 2022, and 1.91 percent in 2034, while G7 nations would be seeing a rebound in the growth rate. 





## Industrial Competitiveness

# Korea Less Competitive Than 10 Years Ago

by Jung Suk-ye

The decrease in global competitiveness of South Korea's major industries that have sustained the nation's economy, including the electronics, automobile, construction, and chemical industries, has accelerated across all sectors after the financial crisis.

According to LG Research Institute and industry sources on Aug. 26, domestic companies have seen drops in sales for two years in a row and rates of return this year, showing a slump in business performance. It is true that the global business environment is deteriorating overall, including a recession in the manufacturing industry. However, Korean companies' businesses are weakening at a faster pace.

The fact can be confirmed in the global competitiveness index from Thomson Reuters, the world's lead-

ing source of intelligent information for businesses and professionals. According to Thomson Reuters, 182 Korean companies were included in the top global 5,000 company list last year. The figure is dropped 14 from 196 in 2004. Also, the rate of return of Korean firms stood at 2.3 percent, down 1.3 percent from 3.6 percent 10 years ago, among top global 5,000 companies.

The global competitiveness of Korean companies by industry has even worsened. The decrease in South Korean key industries, which has led the nation's economic development, has shown across the board.

Electronics and automobiles, which are Korea's key export industries, moved down to 11th and 12th place in terms of global growth last year from the fourth and sixth spots of 2004. The construction

and chemical industries also fell from seventh place to 10th and 13th position, respectively, while the steel, distribution, and service industries dropped from fifth, ninth, and fifth position in 2014 to the ninth, 12th and 13th spots last year. In the comprehensive rankings, which combine growth, profitability, and market share, all industries back down, the electronics falling from fourth to ninth, automobiles from fourth to 15th, construction from 12th to 15th, chemicals from 11th to 13th, steel from seventh to 11th, distribution from sixth to 11th, and the service industry from 13th to 15th.

In contrast, China, which has recently shown low growth, has seen the biggest increase in the global competitiveness of businesses in the past decade. In the top global 5,000 firms list, 720 Chinese firms made the list last year, more than double from 308 in 2004, ranked third following the U.S. and Japan. The ratio of sales of Chinese companies also rapidly increased from 2.6 percent in 2004 to 11.8 percent last year, while the ratio of profits surged from 3.9 percent to 11 percent.

With the rapid growth of China, the U.S. has seen its 1262 companies making the list of the top 5,000 global firms last year, inching up from 1183 in 2004. **BA**

## Selling Spree

## Foreign Investors Dumping Korean Equities

by Jung Suk-ye



The Bank of Korea announced on June 12 that Korea's current account surplus for 2014 is estimated to have increased by US\$8.07 billion from a year earlier to reach a new high of US\$89.22 billion.

This can be attributed to a rapid decline in the current account deficit with regard to the Middle East, which resulted from a drop in international oil prices. According to the central bank, the deficit decreased US\$11.17 billion to US\$79.06 billion last year.


In the meantime, the current account surplus vis-à-vis the United States went up by US\$5.96 billion to US\$42.19 billion, a record high, owing mainly to the export of automobiles and steel products. That vis-à-vis China decreased by US\$540 million to US\$56.16 billion, with the import of IT devices, steel materials, and semiconductor products

on the rise, while the travel balance showed some improvement. The current account deficit amounted to US\$16.31 billion with regard to Japan. The goods balance deficit fell from a year ago as the import of machinery, precision equipment, and chemical products declined.

Overseas investment by residents in Korea showed some increase during the same period. The financial account net outflow went up from US\$63.81 billion to US\$72.5 billion. By region, the amount increased by US\$14.27 billion to US\$26.15 billion for the United States, by US\$100 million to US\$15.26 billion for China, and by US\$5.24 billion to US\$16.26 billion for the E.U., whereas it declined from US\$4.62 billion to US\$4.41 billion for Japan.

The central bank is estimating Korea's current account surplus for this

year at US\$96 billion. The new records, however, are attributable to the current recession in which imports decline more rapidly than exports. The monthly exports dropped by 10.9 percent year-on-year last month, showing no upward movement at all since the beginning of this year. Both the amount and the quantity are on the decline, along with the shipments to main export destinations such as the United States and China. In addition, the continuous surplus is leading to the appreciation of the Korean currency to affect exporters' competitiveness in the global market.

Under the circumstances, the government is planning to release a plan for overseas investment promotion in the second half, which is expected to cover overseas securities investment, pension fund overseas investment, and assistance in the M&As of foreign companies. 



## Samsung Drags KOSPI Down

# KOSPI-listed Companies Showed Negative Growth in H1

by Jung Suk-ye

According to the Korea Exchange and the Korea Listed Companies Association, 628 KOSPI-listed companies' sales for the first half of this year decreased 5.8 percent from a year ago to 533.7469 trillion won (US\$450.7226 billion). During the same period, their operating profits and current net income fell 2.1 and 5.9 percent to 31.3659 trillion won (US\$26.4791 billion) and 27.752 trillion won (US\$23.415 billion), respectively.

This can be attributed to their sluggish domestic and overseas business performances that followed the domestic economic downturn and the repercussions of the Greek crisis. Daewoo Shipbuilding & Marine Engineering recorded more than three trillion won in operating losses in the second quarter alone, while Samsung Electronics' sales dropped by 12.21 percent between the first half of 2014 and 2015.

The figures improve a lot when Samsung Electronics is taken out of the calculations. In this case, the decrease in sales falls to 4.8 percent and the operating profits and current net income go up

by 17 and 7.7 percent, respectively. The 627 companies have an operating profit ratio of 5.83 percent in this case, too.

Sales went up in the six sectors of medical and precision equipment, pharmaceuticals, textiles and garments, food and beverages, nonmetallic minerals, and transportation and warehousing. Meanwhile, the 11 industries including chemical, steel and metal, and electricity and gas showed drops in sales. The 41 companies in the financial sector outperformed those in the manufacturing sector in the amount of increase in sales. Securities firms' operating profits and current net income soared by 314.9 and 480.4 percent year-on-year, respectively.

The sales of 902 KOSDAQ-listed companies edged up by 0.8 percent year-on-year to 50.2 trillion won (US\$42.4 billion). They increased their operating and net profits each by 0.46 and 10.47 percent during the period, as well.

Those in construction, banking, manufacturing, and distribution services succeeded in increasing their sales and profits at the same time, and those in other services, culture, and entertainment

improved their profitability in spite of a decrease in sales. The operating profits of the distribution service industry, in particular, soared from 153.9 billion won (US\$129.9 million) to 302.359 billion won (US\$255.112 million). The operating profits rose in 11 sectors such as Internet and communication services and digital content, but fell in 10 sectors including telecoms equipment, computer services, and computer component. 640 out of the 902 companies were in the black in the first half of this year.

In the meantime, as export stocks have been continuously dull compared with domestic stocks due to unstable economic situations abroad, the price earnings (P/E) ratios of the nation's top 10 groups are also in stark contrast.

According to data about the market capitalization changes of subsidiaries of the top 10 groups in the first quarter this year, GS Group's market capitalization increased by 27.35 percent, which is the highest figure, followed by Hanwha Group with 25.46 percent, and Lotte Group with 19.84 percent.

These groups' achievements are largely due to relatively strong domestic stocks. Their subsidiaries focusing on the domestic market showed more than double digit stock price increases and played a vital role in the increase in the market capitalization of the groups. Among the subsidiaries of the GS Group, GS Retail's market capitalization grew 103.9 percent this year.

For Hanwha Group's subsidiaries, the figure of Hanwha Galleria Timeworld rapidly increased, as it won business licenses to run new large-scale duty-free shops in downtown Seoul. Among the Lotte Group, the market capitalization of Lotte Foods, Lotte Chilsung, and Lotte Confectionery rose. ●







As unfavorable conditions, such as exchange rates, has had adverse effects on the domestic stock market, the total stock value of the nation's 30 stock-rich billionaires have dropped by more than 2 trillion won (US\$1.7 billion) in two weeks.

According to data compiled by market researcher Chaebul.com on Aug. 16, the combined value of the stocks held by the 30 wealthiest South Koreans amounted to 76.97 trillion won (US\$65.53 billion) as of Aug. 13, down 2.08 trillion won (US\$1.77 billion), or 2.6 percent, from 79.06 trillion won (US\$67.3 billion) at the end of last month.

During the same period, the Korea Composite Stock Price Index, the country's key stock index, sank 46.7 points, or 2.3 percent, to 1,983.46 from 2,030.16. The local stock market has been fluctuating amid adverse exchange rate conditions, which have led to a fall in earnings for major exporters in the country. Also, China's recent currency devaluation weakened domestic stocks related to China, including cosmetics.

Shares of cosmetics firm Amore-Pacific Group's Chairman Suh Kyung-bae, who is currently the richest based on his stock holdings, slumped 4.2 percent, or 473.8 billion won (US\$403.37

million), in value to 10.85 trillion won (US\$9.24 billion) from 11.33 trillion won (US\$9.64 billion) at the end of last month.

Due to the slump of Samsung Group and Hyundai Motor Group stocks, the values of owned stocks by both families of Samsung Group Chairman Lee Kun-hee and Hyundai Motor Group Chairman Chung Mong-koo plunged.

Samsung Group Chairman Lee Kun-hee, who is the second richest based on his stock holdings, also lost some of his wealth, as his stocks were valued at 10.63 trillion won (US\$9.05 billion), down 5.6 percent, or 635.7 billion won (US\$541.21 million), from the end of July. The stock value of Samsung Electronics Vice Chairman Lee Jae-yong, the third richest, also tumbled 10.4 percent, or 914.8 billion won (US\$778.82 million), in value to 7.91 trillion won (US\$6.74 billion).

Shares of Hotel Shilla CEO Lee Bu-jin and Cheil Industries President Lee Seo-hyun, who shared eighth place, dropped 11.2 percent, or 295.2 billion won (US\$251.32 million), to 2.34 trillion won (US\$1.99 billion), respectively. The stock value of Leeum Samsung Museum Director Hong Ra-hee, Lee Kun-hee's wife who ranked 20th, slumped 3.8 per-

cent, or 48.7 billion won (US\$41.46 million), while the figure of Lee Hak-soo, the former advisor to Samsung C&T Corporation who ranked the 29th, tumbled 9.6 percent, or 88.2 billion won (US\$75.09 million).

The stock assets of Chung Mong-koo, chairman of Hyundai Motor Group who came in fifth, decreased 4.4 percent, or 200.6 billion won (US\$170.78 million), to 4.36 trillion won (US\$3.71 billion) from the end of last month, and shares of his son Chung Eui-son, vice chairman of Hyundai Motor Group who ranked 10th, also plunged 7.3 percent, or 152.3 billion won (US\$129.66 million), to below 2 trillion won (US\$1.7 billion) in the same period, the data showed.

Among the nation's top 10 stock-rich billionaires, there were only three people who saw the valuation gains this month – SK Group Chairman Chey Tae-won, CJ Group Chairman Lee Jay-Hyun, and Hanmi Pharmaceutical Chairman Lim Sung-ki.

The holdings of SK Group Chairman Chey Tae-won, who took fourth place, edged up 1.5 percent, or 73.9 billion won (US\$62.92 million), this month alone to 5.12 trillion won (US\$4.35 billion) following his release from jail on Aug. 14, as the government granted him a special pardon marking the country's Liberation Day. Shares of CJ Group Chairman Lee Jay-Hyun, who came in sixth, increased 2.6 percent, or 100.5 billion won (US\$85.56 million), to 3.96 trillion won (US\$3.37 billion).

Both Lotte Group Chairman Shin Dong-bin and Former Lotte Japan Vice Chairman Shin Dong-joo, the two brothers quarreling over who gets to succeed their father in controlling the retail conglomerate Lotte Group, experienced 1 percent, or 13.8 billion won (US\$11.75 million) and 0.8 percent, or 10.2 billion won (US\$8.68 million) slips in their respective stock values. The value of domestic stocks held by Chairman Shin Dong-bin amounted to 1.42 trillion won (US\$1.21 billion), while the figure of former Chairman Shin Dong-joo totaled 1.27 trillion won (US\$1.08 billion), according to the data. ●



## Chaebol Falling

# Korean Companies Lose Ground in Global Market Capitalization Ranking

— Jung Min-hee

According to market capitalization data on the top 500 global companies for the last 10 years, the number of Korean companies in the rankings has decreased dramatically from eight to two, while the amount of Chinese companies has quadrupled from 15 to 60.

During a press conference held at the PyeongChang Forum on July 24, Kwon Tae-shin, president and CEO of the Korea Economic Research Institute (KERI), said, "GE of the U.S. and Hitachi of Japan are not the same companies we knew. Rather than keeping up with these companies, which seek change by diversifying their business portfolios, our industry is 'on a cliff edge' right now."

According to the latest Bloomberg analysis for the last decade from 2005, only two Korean companies — Samsung Electronics and Korea Electric Power Corporation (KEPCO) — were "top 500" global firms in terms of total asset value as at July 22 this year, compared to eight in 2005. In contrast, 60 Chinese companies, including those headquartered in Hong Kong, were put in the list, compared to 15 during the same period.

The number of Japanese companies has decreased from 57 in 2005 to 33 this year. However, the figure has remained steady after 2010 and rather slightly increased after 2012. In addition, Korean companies are representing a rapidly-decreasing share of total market capitalization of the top 500 companies, accounting for as low as 0.5 percent.


Also, the country showed a decline in the number of global 500 firms, considering the economic size by each country,

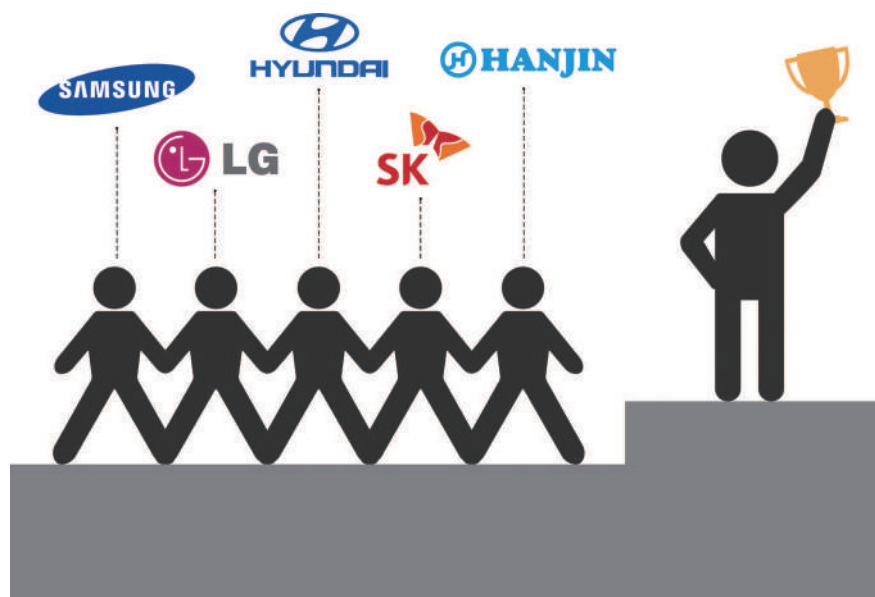
and the nation's leading companies' business portfolios are also too plain compared to rival nations.

Kwon said that we should overcome such an industrial crisis through aggressive business reorganization and innovation. He also cited GE as an example, saying, "GE, whose mission is general electric, is not the same company we knew. It has changed to such an extent as to change its name from General Electric to Advanced Electric." In fact, GE has completely changed its existing business, including home electronic appliances, to advanced industries, including industrial Internet, and new industries that realize dreams, including a brilliant new factory.

Kwon also added, "In order to succeed in diversifying business portfolios

just like the leading companies, Korean companies need to carry out long-term investments. For this, a stable business environment should be created."

In particular, he said that the advantages of the ownership structure that had long been kept by local chaebols, or conglomerates, should be credited and highlighted. This was because Korean style ownership structure could help companies start new businesses with long-term and risky investment. Kwon said, "It is hard to find advanced products, which can lead the global market, in our industry, except for Samsung Electronics' semiconductors. Samsung's semiconductors are also a successful case of the owner's long-term strategy and investment. 



## Downturn

# Profitability of Korea's Top 30 Business Groups Tumbled in 2014

by Jung Suk-ye

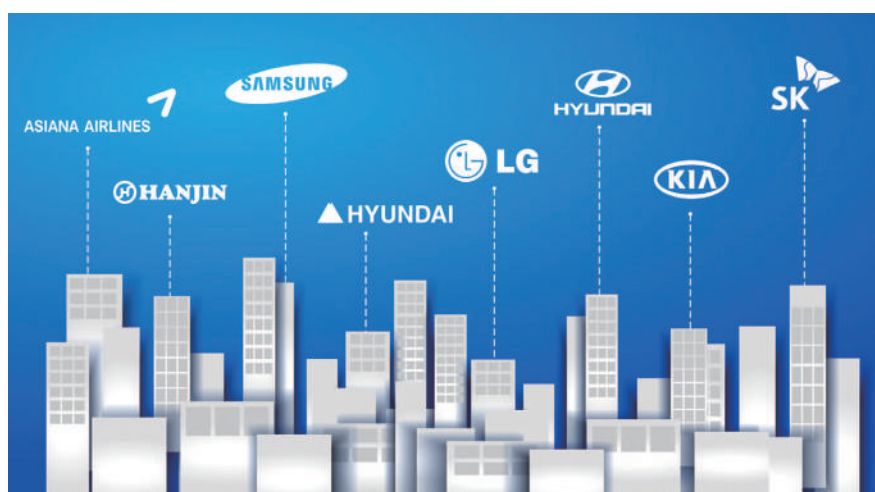
According to the numbers, South Korea's 30 largest business groups saw their profitability plunge to the lowest level since the global financial crisis in 2008.

According to data by Chaebul.com, the combined operating profit of the nation's 30 largest conglomerates by assets, excluding state-owned companies, came to 57.56 trillion won (US\$49.34 billion) last year, down 4.3 percent from 60.17 trillion won (US\$51.58 billion) in 2008. The figure decreased by as much as 34.8 percent, or 30.69 trillion won (US\$26.31 billion), from the peak of 88.25 trillion won (US\$75.65 billion) in 2010.

Their operating profits have rapidly decreased in the last four years from 82.39 trillion won (US\$70.63 billion) in 2011, 76.16 trillion won (US\$65.29 billion) in 2012, 70.4 trillion won (US\$60.35 billion) in 2013, to 57.56 trillion won (US\$49.34 billion) last year.

The return on the sales ratio also came to 4.3 percent in 2014, as much as 2.4 percent lower than the 6.7 percent of 2008. The figure improved to 7.9 percent in 2010, then tumbled by nearly half in four years.

By group, 16 conglomerates posted decreased profits compared with those in 2008. LG Group saw a drop from 6.61 trillion won (US\$5.67 billion) in 2008 to 4.69 trillion won (US\$4.02 billion) last year. The POSCO group also reported a decrease from 7.2 trillion won (US\$6.17 billion) to 3.12 trillion won (US\$2.67 billion). Compared with the figures in 2008, only five groups – Samsung, Hyundai Motor, Hanjin, Booyoung, and




Mirae Asset Group – saw an improvement in operating margins. As Hyundai Heavy Industries Group, KT, Hyundai Group, S-Oil, and Dongkuk Steel posted operating losses of 5 percent, 1.1 percent, 0.6 percent, 0.9 percent, and 0.2 percent, respectively, last year, the groups showed negative growth in their operating profit to sales ratios.

The remaining groups' profitability also worsened. POSCO Group's business profit rate decreased from 15.9 percent in 2008 to 4.4 percent last year. During the same period, the figures of LG Group and GS Group dropped from 7.8 percent to 4 percent and 3.8 percent to 0.3 percent, respectively. Shinsegae Group also saw the same decrease in operating margins from 9 percent in 2008 to 6.3 percent last year, while Daewoo Shipbuilding & Marine Engineering and LS Group saw the drop from 8.9 percent to 3.1 percent and 6.3 percent to 2.7 percent, respectively.

Although the business profit rates of Samsung Group and Hyundai Motor Group are higher than those of 2008, the figures of both companies are showing a downward trend after hitting the peaks in 2010 and 2011, respectively.

Samsung's operating profit rate reached 11 percent in 2010, then kept decreasing from 9.7 percent in 2012 and 8.9 percent in 2013 to 6.4 percent last year. For Hyundai Motor Group, the figure also dropped from 8.7 percent in 2011, 7.8 percent in 2012, and 7.2 percent in 2013 to 6.9 percent last year.

Chaebul.com CEO Chung Sun-sup said, "Conglomerates generally enjoyed a boom until 2012 with the government's measures to intervene in the currency market and boost the domestic market after the 2008 global financial crisis. However, they are unable to get out of slump in the past three to four years due to the weak overseas and domestic demands." 



Down for 7 Straight Months

# South Korean Exports Fall 3.3% to US\$46.6 Billion in July

by Jung Suk-ye

The Ministry of Trade, Industry and Energy (MOTIE) announced on Aug. 1 that overall exports came to US\$46.61 billion (54.64 trillion won) last month, down 3.3 percent from the same month last year. However, the country's trade surplus jumped to US\$7.76 billion (9.1 trillion won) last month, as imports plunged 15.3 percent year-on-year to US\$38.85 billion (45.54 trillion won).

The overall outbound shipments grew 7.8 percent from June and increased for two consecutive months. However, the total amount of exports dropped by more than 3 percent due to the fall in global oil prices and an over-supply of goods in the global market, which together pulled down prices of the country's key export items, including petroleum products.

What is remarkable is that semiconductors have become the country's single largest export item for three years in a row from 2013, while petroleum products have ranked second for the second consecutive year from 2013. In 2012, petroleum products were the largest export item, surpassing even semiconductors.

Shipments of main export items were sluggish. Exports of cars shrank 6.2 percent year-on-year, with shipments of mobile communication devices, including smartphones, plunging 16 percent. Exports of computers, home appliances, textiles, and automobile parts decreased by 6.5 percent, 17.5 percent, 12.2 percent, and 10.7 percent, respectively, showing a big drop. However, shipments of semiconductors rose 6.6 percent year-



on-year in July, while exports of ships and steel spiked 57.4 percent and 16.4 percent, respectively. Also, shipments of organic light-emitting diodes (OLEDs), the country's new main item, surged by a whopping 217.7 percent, with exports of cosmetics increasing 39.1 percent.

By country, shipments to China, the world's single largest importer of South Korean products, shrank 6.4 percent from a year earlier, while exports to Japan, the Commonwealth of Independent States (CIS), the E.U., and the Middle East plunged to 28 percent, 42.7 percent, 5.6 percent, and 18.6 percent, respectively. On the other hand, shipments to the United States and Vietnam gained 1.8 percent and 46.5 percent year-on-year.

Due to the uncertain global economy, drop in global oil prices, and the weak yen and euro, the decline of exports will continue for a while, the MOTIE predicted.

### ICT Exports Drop 3.9% to US\$13.7 Billion

South Korea's exports of information communication technology (ICT) products dropped by 3.9 percent year-on-year in July. It marked the first time in three months that the country's ICT exports logged a year-on-year decline after April.


The Ministry of Science, ICT and Future Planning (MSIP) announced that outbound shipments of ICT products amounted to US\$13.71 billion (16.13 trillion won) in July, down 3.9 percent from the same month last year, while imports increased by 5.8 percent year-on-year to US\$7.57 billion (8.91 trillion won). Accordingly, the country posted a trade surplus in the ICT sector of US\$6.14 billion (7.22 trillion won). The MSIP said that Korea's ICT exports are doing better than most other advanced countries, but external conditions are continuing to deteriorate, as can be seen in the slowdown in the growth of global ICT trade and in lower growth rate forecasts.

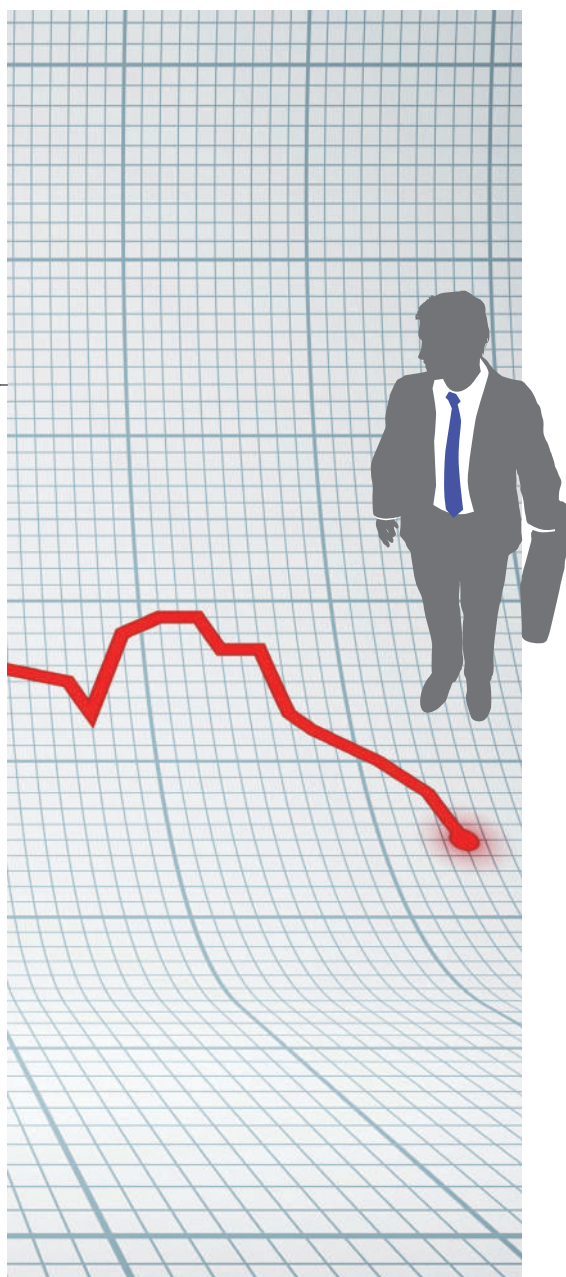
By product, only semiconduc-

tors posted a growth in exports. South Korea's exports of semiconductors rose 6.2 percent year-on-year to US\$5.14 billion (6.05 trillion won) in July. This is due to the fact that shipments of system semiconductors grew by nearly 20 percent from the increase in exports of post-processing semiconductors for mobile devices, though the unit price of DRAM dropped and shipments of memory semiconductors slightly decreased due to exports switching from NAND flash to SSDs.

Shipments of display panels, on the other hand, plunged 15.1 percent to US\$2.1 billion (2.47 trillion won), with exports of mobile phones tumbling 16 percent to US\$1.94 billion (2.28 trillion won). Also, shipments of computers and peripherals declined 13.2 percent to US\$460 million (541.19 billion won), while exports of digital TVs dropped 25.4 percent to US\$520 million (611.78 billion won). The large drop in outbound shipments of mobile phones was largely attributed to the plunge in shipments of smartphones amid growing competition from global manufacturers, including Apple Inc. and Xiaomi, and expanding overseas production. However, exports of smartphone parts increased 6 percent to US\$1.27 billion (1.49 trillion won).

The country's imports of ICT products rose 5.8 percent in July after the figure decreased 2.3 percent in June. By product, imports of smartphones spiked 37.5 percent year-on-year to US\$620 million (729.43 billion won) last month. This is largely due to the increase in foreign-made smartphone imports, including the iPhone, and reimportation of parts. Imports of semiconductors rose 5.9 percent to US\$3.28 billion (3.86 trillion won), while the figure of display panels grew 20.3 percent to US\$590 million (694.14 billion won). However, imports of computers and peripherals dropped 1.5 percent to US\$740 million (870.61 billion won).

The trade surplus of US\$6.14 billion (7.22 trillion won) in the ICT sector in July contributed to the greater part of the overall trade surplus of US\$7.76 billion (9.13 trillion won). 





## Strained Relationship

# Changes in Chinese Economic Policy Posing Threat to Korean Exporters

by Marie Kim

The Chinese government is looking to shift the focus of its industrial policy from the export of finished goods based on the import of intermediary goods to the procurement of intermediary goods within China. Under the circumstances, exports from Korea to China decreased by 0.4 percent last year and 2.1 percent in the first half of this year, and the recent devaluation of the yuan is expected to have a negative impact on the exports as well.

The People's Bank of China devalued the yuan by 4.7 percent from Aug. 11 to 13. Under the circumstances, Korean companies in various sectors are trying to find out how to cope with the currency war.

The devaluation is likely to cause Korean mobile phones, mobile phone components, ships, electronics products, and the like to become less competitive in price due to the high export similarity between Korea and China regarding those items. Last year, the two countries recorded an export similarity index of 0.346 in the U.S. import market. Although the figure was less than that between Korea and Japan at 0.517, it has continued to go up since 2010. The index reached 0.845 with regard to mobile phones and handset components, 0.558 in the shipbuilding sector, and 0.505 when it comes to electronics and electrical products.

In the Korean automobile industry, which has taken a hit from the weak yen, the devaluation of the Chinese yuan is likely to have a negative impact in the long term, although it can be helpful in terms of price competitiveness for a short while by entailing some depreciation of the Korean won. This is because global

automakers that are expanding their facilities in China are likely to make use of the facilities to penetrate the Korean market, with consumption in China expected to shrink. Then, non-Korean cars made in China can be supplied to Korea, with the price gap between Korean cars and the others narrowing.

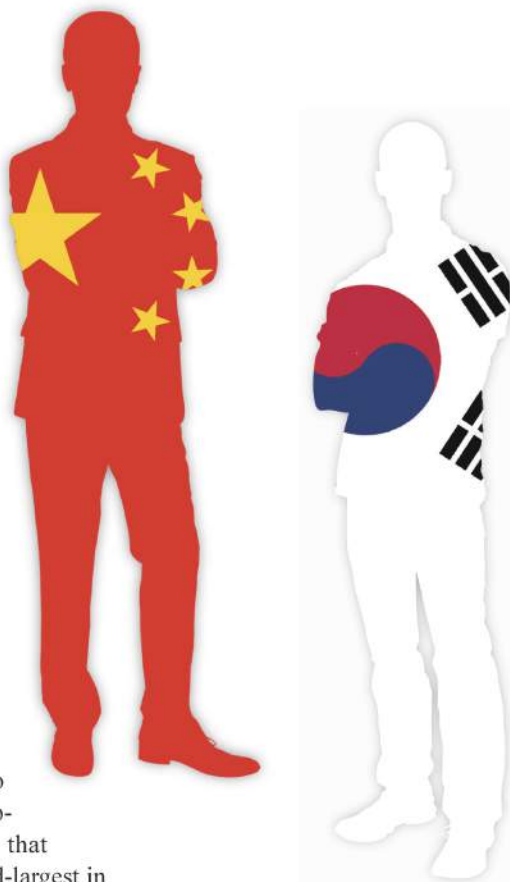
The steel and shipbuilding sectors, which have already faced a serious challenge from Chinese rivals, are predicted to be even more affected by the devaluation. In the shipbuilding industry, smaller firms relying more on less expensive ships such as bulk carriers are likely to take a blow. The Chinese shipbuilding industry has beaten that of Japan to become the second-largest in the world. Most Korean shipbuilders are currently suffering from adverse business conditions, and the larger ones have incurred huge losses while diversifying their portfolios to high value-added ships and offshore plants in order to outplay Chinese companies.

The IT industry is also vulnerable due to its high dependence on exports to China. Samsung Electronics and LG Electronics have increased their market shares in China by means of less expensive smartphones and consumer electronics, but this strategy does not work amid the devaluation of the Chinese currency.

In the display industry, in the meantime, Chinese companies such as BOE are expected to become more competi-

tive in price. Korean companies' share in the Chinese market may be significantly affected, with Chinese players already boosting their shares in the global market.

Fortunately for Korea, though, the current situation can lead to at least some improvement in profitability on the part of exporters because steel sheets, precision chemical materials, and raw materials such as coal and non-metallic minerals can be imported at lower prices. In addition, the exports from Korea to China can be recovered if the Chinese economy and domestic consumption perk up in the long term based on a currency devaluation.





"The devaluation of the yuan has both positive and negative effects," the Korea Institute for Industrial Economics & Trade explained, adding, "It seems to be more negative in the short term, but rather positive in the end, because Korea's exports to China revolve around intermediary goods."

## Concerns over Heavy Dependence on China

South Korea's economic dependence on China has increased significantly after establishing diplomatic ties, a private think tank said, raising the need for policy efforts to cope with growing risks from the neighboring country, including an economic crisis.

According a report, called "Meaning and Implications of the 23rd Anniversary of Diplomatic Ties Between Korea and China" published by Hyundai Research Institute (HRI) on Aug. 20, trade between the two jumped 37-fold from US\$6.38 billion (7.59 trillion won) in 1992 to US\$235.37 billion (280.09 trillion won) in 2013, after the two established diplomatic ties in 1992.

South Korea's exports to China, in particular, represented 25.3 percent of its total overseas shipments last year, up from 3.5 percent in 1992, the report showed. Accordingly, China has become the largest export market.

The export similarity indexes (ESI) between Korea and China in eight primary export industries have all risen. In 2013, the shipbuilding industry had the highest Korea-China ESI with 0.86, followed by precision machinery and the petrochemical industries with 0.76, steel products with 0.66, IT with 0.64, steel with 0.58, machinery with 0.54, and automobiles with 0.47.

Direct investment surged as well. South Korea's direct investment in China jumped by 17-fold from US\$220 million (US\$261.8 billion won) in 1992 to US\$3.75 billion (4.46 trillion won) last year. China's direct investment in Korea grew 1,100 times, with the amount skyrocketing from US\$1 million (1.19 bil-

lion won) in 1992 to US\$1.19 billion (1.42 trillion won) last year.

Technical trade between Korea and China increased 19 times from US\$190 million (226.1 billion won) in 2001 to US\$3.63 billion (US\$4.32 trillion won) in 2013. Exchange of human resources between the two also rose 15 times from 708,000 in 1995 to 10.31 million in 2014.

Under the circumstances, a analysis came out that the survival rate for Korean exporters 5 years after their first entry into the Chinese market will be lower than European countries, the U.S., or Japan. Only 25 out of 100 survive.

According to a researcher of international trade at the Korea Trade Association who surveyed 87,000 Korean exporting companies from 2009-2014, the survival rate after a year was 54.6 percent; after 3 years, 34.7 percent; and after 5 years, 25.6 percent. Overall, only 26 out of 100 companies survived after 5 years.

The figures suggest that the viability of Korean export companies has slightly improved, as the figures are higher than those reported during the export boom of 2003-2008.

By item, exporters of used cars, plastics, clothes, and non-manufacturing products prove frequent stoppers, whereas exporters of pyrotechnics, machinery, and manufactured goods prove relatively more resilient.

By country, while China represents

the largest export market, it is also the most challenging market for Korean exporters. The number of new exporters to China has recently declined, but the number of quitters has risen, indicating the worsening export conditions in China.

The viability of China as an export market for Korean exporters for the duration of a 5 year period marked 19.9 percent. The U.S. is ranked first, followed by Japan, the E.U., and ASEAN. China is trailing these countries.

Meanwhile, exporters point out the possibility of market expansion is the most critical factor to determine whether or not they continue exporting their production. The empirical analysis also testifies to that, showing a large number of exporting countries are more important than the wide range of goods they export.

Research fellow of the Institute of International Trade Chang Sang-sik said, "Those who discontinued exporting in 2014 reported that their exports from the previous year were worth US\$2 billion. This means that if they continue to export, their exports will significantly contribute to the performance of the national export industry and their future export industries. As far as Chinese markets are concerned, rather than one-time support and matching, substantive types such as linking exporters up with local Chinese distributors, enhancing cooperation among Korean exporters, or localization support are necessary. 📌





# IR & MANAGEMENT


## Nuclear Waste Disposal Doosan HI&C Enters Spent Nuclear Fuel Container Business

by Jung Min-hee

**D**oosan Heavy Industries & Construction is entering the “spent nuclear fuel” container business. Until now, there has been no domestic firm with the design technology.

Doosan Heavy Industries & Construction announced that it has signed an agreement with NAC International of the U.S. in Kyobo Tower in Seocho-gu, Seoul, on Aug. 25. Under the agreement, the two companies will jointly develop a Korean model of CASK, a container for used nuclear fuel.

A CASK is a special container that transports and stores spent nuclear fuel. Since spent nuclear fuel steadily emits strong radiation and high heat, cask is a product that requires special design and manufacturing technology to convey and store it.

The special container will be five meters high and weigh more than 100 tons. The demand for CASKs is expected to rise in the nation from 2024, because the storage of Hanbit Nuclear Power Plant will be saturated in that year. 



Vice President of Doosan Heavy Industries and Construction Kim Ha-bang, right, and President of NAC Kent Cole signed a cooperation agreement on Aug. 25.

## International Community Outreach CJ Group Constructs Water Pipeline in Tam Ngan 2 Commune, Vietnam

by Lee Song-hoon




3rd to 6th from left: K-water's Hwang Man-ha, CJ Group's Min Hee-kyung, KOICA's Shin Eui-cheol, and NinhThuan Province's Vo Dai break ground for the construction of a water pipeline in Tam Ngan 2 Commune in NinhThuan Province, Vietnam, on Aug. 10.

**A**s part of the Saemaul movement project that aims to improve the environment, promote agricultural self-reliance, and increase the sources of agricultural income for local farmers, CJ Group and the Korea International Co-operation Agency (KOICA) are pushing ahead with the construction of a water pipeline to improve the living conditions of a village in NinhThuan Province, Vietnam, along with the Korea Water Resources Corporation, or K-water.

On Aug. 10, the ground-breaking ceremony for the construction of a water pipeline was held in Tam Ngan 2 Commune in NinhThuan Province, Vietnam, attended by Min Hee-kyung, the head of CJ Goup's Global Creating Shared Value (CSV) program.

NinhThuan Province's Tam Ngan 2 Commune lags behind in living standards. One hundred eighty eight households, nearly 80 percent of total 245 households in the village, do not have water supply facilities.

In particular, K-water will participate in the project, perform on-spot pre-investigations, and carry out the design. K-water plans to strengthen public concern over international projects, including the provision of water management technology to Vietnam, and to proceed with new business development.

Starting from May last year, CJ Group and KOICA have implemented the “KOICA-CJ Saemaul Movement Creating Shared Value Program” in Vietnam. They have supplied a seeding of chilis and advanced farming methods to local farmers in a bid to enhance their income. Also, both companies have provided Saemaul self-governing education in order to promote agricultural self-reliance and reform residents' mindsets. 

## Licensing Deal E-Land Group Acquires Business License for 'Coffee Bean' in China


by Jung Min-hee

The E-Land Group announced on Aug. 24 that it signed a deal with global coffee chain "The Coffee Bean & Tea Leaf," and acquired the rights to do business in China.

An official from the E-Land Group said, "Integrating 21 years of the group's retail experience in China and distribution networks with the global brand power of Coffee Bean, we have strengthened our status as the king of content further."

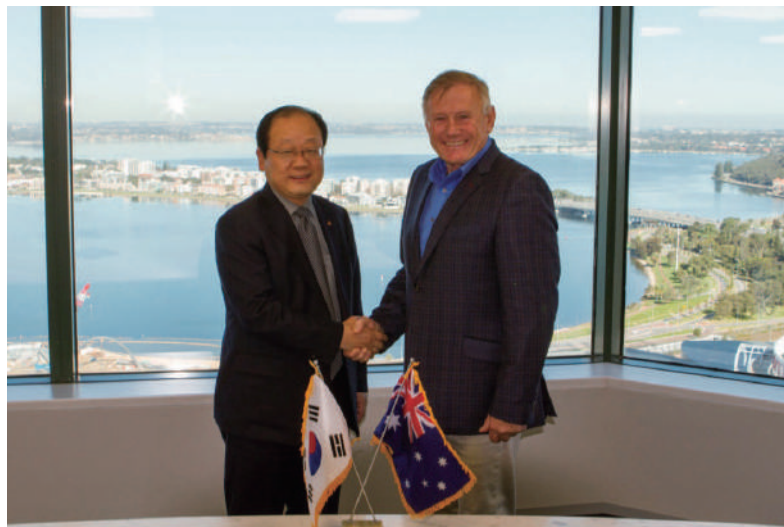
The Coffee Bean is an American coffee chain founded in California in 1963. It is the largest and oldest unlisted coffee and tea chain in the U.S. As of Aug. 2015, the chain has about 1,000 stores in 30 countries around the world, including the U.S. and Germany.

In particular, its headquarters has great expectations for the networks of E-Land, which directly operates 7,300 outlets in 1,070 department stores and shopping malls in 239 cities in China, an official of E-Land added.

Within the next few years, E-Land plans to open and operate more than 1,000 Coffee Bean shops, including some large ones with a floor space of more than 700 square meters, regular size ones and small ones throughout major cities and regions of China. 



Choi Jong-yang, CEO of E-Land China, and Jeff Schroeder, CEO of the Coffee Bean and Tea Leaf, sign a contract to take over the business rights in China at the headquarters office of E-Land China on Aug. 21.



Hanwha Corporation Australia CEO Choi Yang-soo (left) shakes hands with LDE Corporation Managing Director Kevin Waldock (right).

## Low Density Deal Hanwha Takes Over Australia's Mining Service Provider LDE


by Jung Suk-yeo

Hanwha Corporation, the nation's leading explosives producer and global total explosives supplier, is taking over all stocks of Low Density Explosives (LDE) Corporation Australia, Australia's mining service provider, and LDE Corporation USA, for the price of 39 billion won (US\$32.98 million).

Hanwha Corp. signed a contract with LDE Corp. Managing Director Kevin Waldock on Aug. 11 to acquire 100 percent of the shares of LDE Corp. at 25 billion won (US\$21.14 million). Also, it will take over 100 percent of the shares of LDE Corp. USA at 14 billion won (US\$11.84 million) either Sept. or Oct. after the needed approval process.

Founded in the Queensland State of Australia in 1996, LDE Corp. has an annual emulsion explosives production capacity of 200,000 tons. The firm manufactures various explosives in Australia and the U.S., and provides mining services to mining companies.

Hanwha Corp. expects to boost its overseas sales through the acquisition. LDE Corp. posted a total of AU\$56 million (US\$40.94 million or 48.42 billion won) – AU\$44 million (US\$32.17 million or 38.04 billion won) in Australia and AU\$12 million (US\$8.77 million or 10.38 billion won) in the U.S. – in sales last year.

Also, Hanwha will have synergy effects with the overseas mining services business in its explosives division. The firm is currently mining in Indonesia, Australia, and Latin America. An official from Hanwha Corp. said, "With Hanwha Corp.'s explosives technology and LDE Corp.'s verified quality and price competitiveness, we can now accelerate the Australian market invasion." 



## Upgrades

## Korean Air Introduces Next-gen B747-8i Jet Airliner

by Jung Min-hee


At Boeing's Everett Delivery Center in Seattle on Aug. 25 (local time), Korean Air held a ceremony to mark its acquisition of its first next-generation B747-8i jet airliner, with officials of the two companies attending, including Korean Air Vice President Cho Won-tae and Ray Conner, CEO of Boeing Commercial Airplanes.

With this purchase, Korean Air has become the world's first carrier to operate both B747-8i jet airliners and B747-8F cargo planes. The B747-8i is a next-generation plane that improves fuel efficiency and reduces noise levels and carbon emissions with cutting-edge technology, said the company.

In particular, it is 5.6 meters longer than the B747-400. The additional length allows Korean Air to add roughly 50 more seats. Cargo space is also 27.9 square-meters bigger.

The plane has a total of 368 seats – six First Class seats, 48 Prestige Class seats (26 seats on the first floor and 22 seats on the second floor), and 314 Economy Class seats. Considering the fact that the existing B747-400 has 333 or 335 seats, the Korean carrier has installed only about 30 more seats, providing more generous seating spaces.

Korean Air brought the B747-8i into the country on Aug. 26 (local time), and it will make its virgin flight to Frankfurt, Germany, on Sept. 2. After that, the carrier will put the next-generation airliner into flights connecting Singapore, San Francisco, and Hong Kong.

Including this first one, Korean Air will introduce four B747-8is this year alone and run 10 total by 2017. 

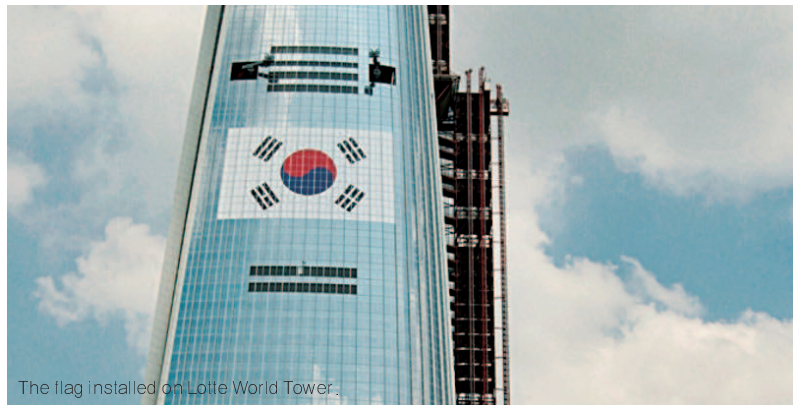
The new Korean Air B747-8i airplane.



## Highest-flying Flag

## Lotte Displays Huge South Korean Flag on Lotte World Tower

by Jung Suk-yeo



The flag installed on Lotte World Tower.

Marking South Korea's 70th anniversary of Liberation Day this year, Lotte Corporation announced on Aug. 6 that it has completed installing a large Korean flag on the 70th floor of Lotte World Tower, the tallest building in the nation.


The huge Korean flag is put up on a total of 336 curtain wall windows from the 57th to 70th floor sections of Lotte World Tower. It is 36 meters wide and 24 meters long, to symbolizes that Koreans withstood 36 years of Japanese colonial rule.

The height of the Lotte World Tower's 70th floor reaches about 304 meters from the ground and the area of the Korean flag is 864 square meters, or 262 pyeong. It is therefore both the largest and highest-flying Korean flag ever seen.

Lotte Corp. spent more than 100 million won (US\$85,609) to install the Korean flag. From Aug. 3, the company had installed the flag by making use of two 43-ton building maintenance units (BMUs), which are positioned on the 73rd floor of Lotte World Tower. Recording the whole process in a time-lapse video, it will hopefully remind Korean people of the meaning of the 70th anniversary of Korea's liberation.

It will also display "My Liberation", Seoul City's memorial emblem of the 70th anniversary of Korea's liberation, on the outer wall from the 43rd to 58th floors of Lotte World Tower, under the Korean flag, until Aug. 11. Moreover, the government's memorial emblem of the 70th anniversary of Korea's liberation will be put up on the upper part of the main entrance of Lotte World Mall's Avenuel.

Lotte Corp. CEO Noh Byung-yong said, "Celebrating the 70th anniversary of Korea's liberation, we have installed the Korean flag on the 70th floor of Lotte World Tower, the tallest building in the country, so that we can think about the meaning of Korea's independence once again. Through the Korean flag, which is high up as our national power, the company expects to inspire patriotism as well."

Lotte World Tower is a 123 floor, 555 meter tall skyscraper currently under construction. Once completed at the end of 2016, it will be the tallest building in Korea. As of Aug. 4, 103 of the core wall and 93 of the curtain walls of the projected 123 floors are currently under construction. 

## News

## SK Telecom Wins 3 Prizes in 2015 Red Dot Design Awards

by Jung Suk-yeo




SK Telecom (CEO Jang Dong-hyun) announced that it has received three awards from the 2015 Red Dot Award held in Germany on Aug. 10.

The nation's largest mobile carrier said that Boxchool, Cover&, and the Linkage EF Hearing Aid have won prizes in the Design Concept, Communication Design, and Product Design categories at this award.

Boxchool is a modular smart classroom built from shipping containers, which combines classroom space, hardware for smart learning, and various interactive software solutions. The modular classroom can function in any setting, since it can generate electricity from installed solar panels. A rainwater utilization system allows for autonomous operation of the classroom. Therefore, it received the Best of the Best Award in recognition of its expandability and independence, beating out 4,680 entries from 61 countries.

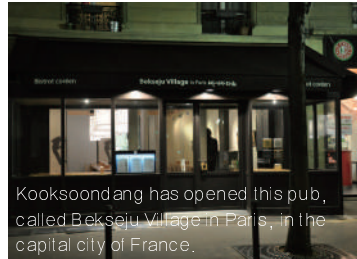
Cover& is a smartphone lock screen service that can be personalized to a user's own tastes, eliminating the need to unlock a smartphone dozens of times a day. A user can set up FHD high-resolution images and have easy access to six frequently-used apps by just tapping on the lock screen. The service received "the Winner" award in the Communication Design Category in recognition of its effective user interface design for "communication between the product and customers."

The Linkage EF Hearing Aid is a neck band-shaped smart hearing aid that offers hearing aid features for people with hearing loss via a smartphone app, according to their hearing conditions and surrounding environments. Consequently, it received a "Winner" award in the Product Design Category, which considers nine standards including innovativeness, functionality, and eco-friendliness.

The German-based international award is recognized as one of the world's most prestigious design competitions since it was established in 1955. Red Dot Design Awards is better known as "the Oscars of design," and the award is given in three categories — Design Concept, Communication Design, and Product Design. 

## Kooksoondang Abroad Traditional Korean Brewery Goes Global

by Marie Kim



Kooksoondang has opened this pub, called Bekseju Village, in Paris, in the capital city of France.

In March 2014, Kooksoondang, a company producing traditional Korean alcoholic beverages, opened a pub in Paris, the cultural center of Europe. The pub specializes in serving traditional Korean beverages like Bekseju. It is the first time that a Korean liquor company has opened a pub

in an overseas market to run directly from the headquarters based in Korea. Named "Bekseju Village Paris branch," the pub is situated on the Gobelins, the borderland of 13th and 5th districts of Paris.


Dishes to eat with drinks are chosen with special consideration for the taste of Europeans. For instance, for dishes to be served with drinks, Kooksoondang chose dishes that are known to be the most popular among Europeans. Bekseju Village Paris branch is a bistro-style restaurant that serves 5 traditional Korean items including kimchi stew, bulgogi, and bibimbap. In the evening, the restaurant turns into a tavern that sells the company's flagship alcoholic beverages of Bekseju, rice wine, and Icing. It also offers a variety of traditional alcoholic beverages like bokbunja and other traditional fruit wines. For dishes to eat with drinks, it has bossam, steamed pork wrapped in greens; maekjeok, charcoal grilled pork; and pajeon, a grilled seafood pancake.

Kooksoondang also made efforts to recreate the uniqueness and authenticity of the atmosphere of a traditional Korean pub. The interior decorations are modeled on Baekseju Village pubs currently operating in Korea. The pub has a menu written in Korean with French explanations. The design and interior was decorated in such a way as to give the impression of "being Korean."

In a bid to maintain the authenticity of the tastes of Korean alcoholic beverages, Kooksoondang dispatched a chef with 8 years of experience under his belt. The chef serves his own cooked dishes.

In particular, Bekseju Village Paris branch sells alcohol made in the authentic traditional way. Since 2009, Kooksoondang began to engage in the enterprise of restoring traditional alcoholic drinks in a bid to propagate the excellence of Korean traditional drinks to the global community. At the Bekseju Village Paris branch, Kooksoondang serves Yihwaju. Yihwaju is the original version of today's makkeoli, and was enjoyed by royals during the Chosun and Koryo dynasties. Yihwaju is so thick that one needs a spoon to enjoy it. Yihwaju is so unique in taste and texture that there is no alcohol in the world that is quite like it.

The period from its opening in March to the end of last year marked a impressive start, posting a revenue of €353,000 (US\$406,733) from 15,000 customers.

The Kooksoondang spokesman said, "Kooksoondang is working steadily toward propagating the Korean food and drink culture abroad, and Bekseju Village Paris branch is especially focusing on the European community in spreading cultural information." 





## Fintech Friction

# Simple Payment Service Market Highly Likely to Become Overheated

by Cho Jin-young

Simple payment services are springing up like mushrooms. Although the market is in a nascent stage, numerous companies are scrambling to launch simple payment services. Therefore, some industry watchers say that customers should carefully choose which service they will use according to their life patterns.

Also, the companies who want to tap into the simplified mobile payment service market need strategies to secure versatility. If they compete indiscriminately even from the early stage of the market, the service market could become “a league of their own.”

Others say that the domestic simple payment service market will have a great potential for growth due to fierce competition. However, there is also concern that all domestic companies will struggle due to the competition between one another if global giants make inroads into the domestic market in earnest.

According to industry sources on Aug. 2, the domestic market has already developed. Even though the mobile payment service market is in the initial stage, the competition between

service providers are already overheated. Various services are competing in the market, including SK Planet’s Syrup Pay, Shinsegae Group’s SSG Pay, NHN Entertainment’s PAYCO, and LG Uplus’ Paynow, as well as Korean internet giant Naver’s Naver Pay and DaumKakao’s Kakao Pay.

In Sept., Samsung is going to launch Samsung Pay. Also, Chinese e-commerce giant Alibaba is determined to enter the Korean mobile payment market.

The market is not mature yet, but the companies now have a lot to think about, due to an increasing number of participating companies.

An industry expert said, “As more and more companies are joining the simplified mobile payment market, competition also becomes strong. Rather than just a functional change that shifts functions of plastic cards into smartphones, service providers need to create new services that can make consumers use the mobile payment services instead of plastic cards, which are more familiar with them.”

In order to do so, the firms also need to recognize when consumers need the simple payment services, along with numerous affiliated shops and stores and technology.

NHN Entertainment’s PAYCO allows users to simply make online or offline payments with their smartphones even if they are turned off, without downloading the application. NFC, or near field communication, technology is used that enables users to make offline transactions with just a tap. The company has secured 100,000 online and offline stores each, and is planning to expand even more.

The Shinsegae Group has become the first Korean retailer to release its mobile integrated payment system called “SSG

Pay," that allows users to make online and offline payments. After the company figured out that major mobile payment service providers had some limits to increase the number of users and partner stores, it combined the simplified payment service system with its strong distribution channel, including 21 million Shinsegae Point members, Shinsegae Department Store, and E-mart. SSG Pay can be used by downloading the SSG Pay application and charging it with the e-currency SSG money, which is converted from cash or a gift card, or using a credit card registered in the SSG Pay account. With the service, Shinsegae has improved customer convenience.

Samsung Pay, which is scheduled to start the service in Sept., has cooperated with six domestic credit card companies and drawn major credit cards into smartphones. Also, there is an additional feature supported by Samsung Pay, called magnetic strip technologies (MST). These magnetic strip technologies are present in most payment terminals already, meaning that participating merchants will not have to invest in additional infrastructure to accept Samsung pay transactions.

Based on the evolution of simple payment services with such differentiated strategies, the domestic mobile payment market has been activated. However, domestic service providers also need to prepare for global companies who want to push into the market.

As of now, the domestic market just seems to have excessive competition. Since there is no policy support, deregulation, or strong infrastructure, domestic companies are likely to lag behind global simplified mobile payment service providers with a system if they enter the domestic market.

Alipay's statement that the Chinese market is ahead of the Korean market in terms of mobile payment services is raising such concerns even more. The company provides online and mobile simplified payment services and an escrow service, in which consumers can verify whether they are happy with goods they have bought before releasing money to the seller. Alipay accounts for a whopping 74.92 percent share in the Chinese mobile payment market, and has 820 million subscribers in 34 countries.

During a press conference in Seoul in May, Alibaba Group Founder and Chairman Jack Ma Yun said, "In cooperation with Korean partner firms, we want to create localized payment services. We will make Korean Pay just like Alipay."

For the moment, Alipay does not lead the domestic market. However, the domestic simple payment service market will be greatly hit if Alipay evolves to be a more powerful service by integrating payment data and technology that has been accumulated by the company.

Once foreign fintech companies directly tap into the domestic payment market, they will be able to gradually expand their business areas by easily securing various domestic financial information, which in turn the market share of domestic payment service provider PG and domestic credit card firms will drop, Woori Finance Research Institute expected.

An official from the Information Technology industry said,

"Considering the fact that Alipay mentioned specific fintech companies and other financial companies as their partner company in Korea, it is aiming for many benefits in the Korean market. Domestic service providers should not blindly enter the market with just marketing, but prepare for competition with their differentiated technologies and strategies." <sup>BNK</sup>

## Payment Servicing

# LG Teaming up with Google to Roll Out Android Pay

by Marie Kim

**L**G Electronics is partnering with Google in launching Android Pay, a simple payment service associated with the Android camp. Despite its partnership with powerful Google, it still remains questionable whether LG can counterbalance the status quo of the simple payment service market, which is currently dominated by Samsung and Apple.

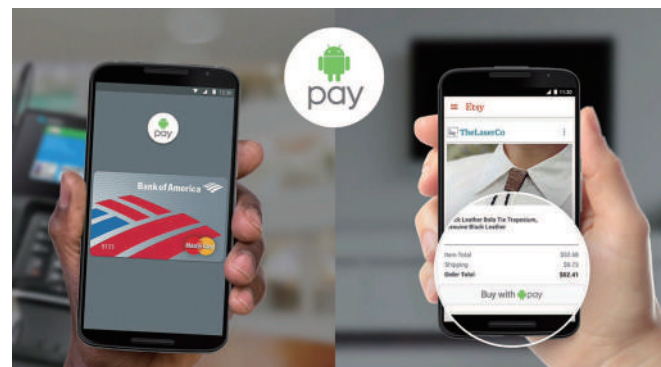
According to an industry watcher on Aug. 6, LG is going to roll out the next Google Nexus phone in Oct.

The Nexus phone is a trial product featuring the latest version of Android OS. Due to their image as prototype products, the Nexus phones are sometimes called reference phones. Nevertheless, due to the large volume of sales they generate, manufacturers teaming up with Google spend as much time and effort in producing them as in producing normal smartphones.

Once chosen as a manufacturer for the Google Nexus phone, that manufacturer has the advantage of starting to develop software associated with the latest version of Android earlier than other competitors.

In fact, in the past, manufacturers like Motorola, HTC, and Samsung teamed up with Google to manufacture 6 series' of Nexus phones.

But this time the Nexus will be loaded with Android Pay.



Android Pay allows users to store their payment options on their smartphone and use them with Near Field Communication.



The industry watcher said, "The question of whether Android Pay would succeed in the simple payment service market would depend on its ability to dominate the advanced countries' markets in Europe and North America... this is in part why Google chose LG, given the latter's success in these markets."


Apart from its partnership with LG, Google has reportedly teamed up with Chinese manufacturer Huawei to manufacture the next Nexus phone.

However, Huawei's market competitiveness is known to be limited to the local Chinese market. Given the imperative of the Android Camp to dominate advanced economies, for the time being, LG is expected to lead.

Its partnership with Huawei appears more as a long-term strategy to build the base for future competition in the world's largest market.

According to Industry watcher, LG would produce 5 inch Nexus and Huawei 5.7 inch Nexus phones, respectively.

Compared to Apple and Samsung, Google is a late starter in simple payment services. Nevertheless, Google is determined to expand its market share via its market power marked by 60 percent domination in the mobile OS market.

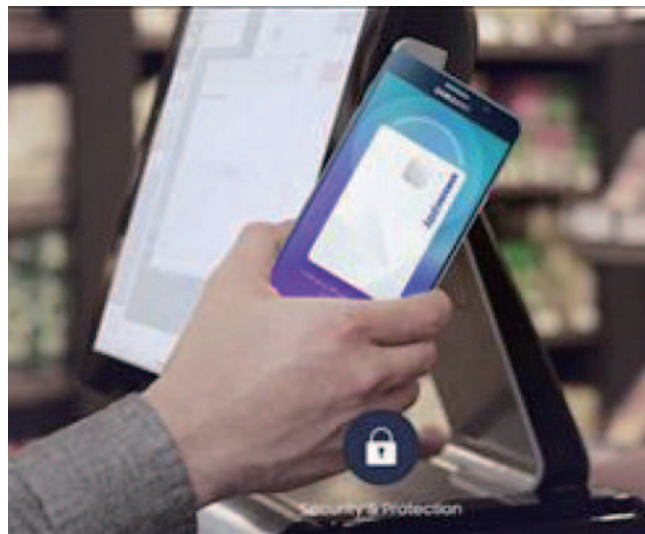
However, as in Apple Pay's case, Android Pay is only compatible with Near Field Communication (NFC), short-range wireless communication, whereas Samsung Pay is compatible with both NFC and Magnetic Secure Transmission (MST). Therefore, as far as versatility is concerned, Samsung Pay is expected to be more competitive than Android Pay. 

## Huge Popularity 80,000 Credit, Check Cards Registered on Samsung Pay 5 Days after Launch

by Cho Jin-young

**S**amsung Pay is showing signs of tremendous popularity. More than 80,000 credit or check cards were registered just five days after its release, so the mobile payment service is considered to have succeeded in attracting early users.


According to sources in the credit card industry on Aug. 25, more than 10,000 credit or check cards were registered on Samsung Pay on Aug. 20, its launch date. Since then, the number of card registrations has increased starting from Aug. 22, and about 80,000 credit or check cards are believed to have been registered as of Aug. 24. Observers say that around 20,000 credit or check cards issued by large credit companies have registered.



A model uses Samsung Pay with the Galaxy Note 5.

The credit card industry thinks that Samsung Pay's early popularity is encouraging. In particular, the success of a simple payment service developed especially for offline use by attracting over 10,000 credit or check cards in just one day has special meaning at the moment. Most simple payment services like app cards or Universal Subscriber Identity Module (USIM)-based mobile cards are only used online, and thus it is difficult for the offline simple payment market to grow. In order to use USIM-based mobile cards, led by BC Card and Hana Card, offline, NFC-enabled terminals are needed, but not many affiliated stores have them. That explains why simple payment services have encountered difficulties in expanding users. Among the 2.3 million affiliated stores in the nation, only 500,000 reportedly have NFC-enabled terminals. App cards, on the other hand, do not impose a burden on affiliated stores, since bar codes and QR code payments are both possible. However, app cards haven't been met with a very positive consumer reaction due to the complex nature of their use.

Experts are saying that Samsung Pay's early success lies in the fact that it is convenient to use, thanks to the fingerprint identification method. In addition, the service can be used anywhere, since it is based on magnetic secure transmission (MST) tech. An official at a credit card company noted, "Since Samsung Pay is an MST-enabled service, it can be used in most affiliated stores. I think that it played a decisive role in attracting users."

On top of that, the huge popularity of the Galaxy Note 5 and the Galaxy S6 Edge Plus, which support Samsung Pay, is cited as a favorable factor. More than 100,000 units were sold only four days after their introduction to the nation. Considering that Samsung Pay is available on the Galaxy Note 5, Galaxy S6, Galaxy S6 Edge, and Galaxy S6 Edge Plus, industry analysts think that the number of users will further grow, stemming from the handset replacement cycle. 

## Smartphone Payments

# Samsung Pay to be Made Available in Europe within This Year

by Cho Jin-young



Samsung Pay will allow users to store their MasterCard information on their smartphones.

The Samsung Pay mobile payment service of Samsung Electronics is expected to make its debut in Europe before the end of this year.

According to industry sources, Samsung Electronics and MasterCard recently agreed to enhance their partnership for the purpose of launching the service in Europe. The idea is to make it available in all European countries as soon as possible. It is said that European credit card issuers are planning to provide the Samsung Pay service by linking it to the MasterCard Digital Enablement Service (MDES). The MDES, which is a platform allowing MasterCards to be used on smart devices, has provided token services for millions of MasterCard accounts since 2013 so that they can be used as mobile wallets.

At present, Samsung Pay is being tested in Korea. It is planned to be released in Korea and the United States this summer. Visa Card has joined Samsung Electronics as a partner for the service in the U.S. market.

Galaxy S6 and Galaxy S6 Edge users can use the service now. The Galaxy Note 5 and the Galaxy S6 Edge Plus, which are scheduled to make their debut in New York next month, come with Samsung Pay, too. Samsung Electronics is planning to increase the number of Samsung Pay users around the world to at least 17 million by 2020.


## Near Field Payments

# Korean Telecoms Operators Launch NFC Payment Services in China

by Cho Jin-young

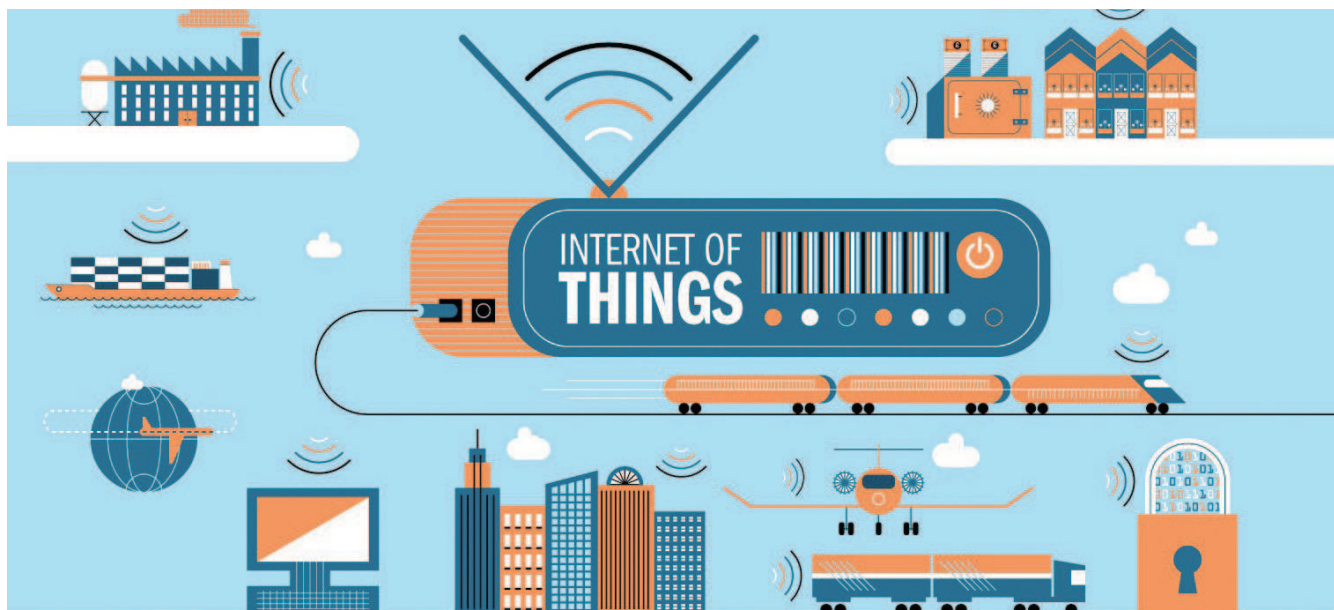
Korean mobile carriers are launching NFC-based mobile credit card services in China. The target customers are expected to expand from Korean tourists in China to the Chinese in general in the long term.

KT announced on Aug. 6 that it released the Union Pay Mobile QuickPass Card with BC Card. The QuickPass is an NFC and touch-based payment service developed by Union Pay International. A payment can be made when an IC card supporting QuickPass is brought into contact with a QuickPass terminal and a signature is signed. KT and BC Card completed the tests for the release of the product with the Bank Card Test Center (BCTC) early this month.

LG U+ announced on the same day that it will provide Union Pay mobile credit cards and payment services with KB Kookmin Card from next month for LG U+ and KB Kookmin Card users. The telecoms operator recently developed and tested a USIM carrying the Union Pay application program, and is about to obtain approval from the credit card certification center of the People's Bank of China. The users can use NFC-based mobile credit card payments at five million or so Union Pay terminals in China starting in Sept. 







## Internet of Nascent Things Korea Still at Very Nascent Stage in Growing IoT Sensor Market

by Cho Jin-young

Sensors for cars and Internet of Things (IoT) devices are emerging as a new growth industry in the semiconductor market. As the semiconductor market for smartphones is highly likely to show signs of negative growth, high-performance smart sensors are receiving a lot of attention. On the other hand, the Korean sensor chip market is still in a very nascent stage due to the passive responses of the government and large businesses.


According to market research firm Gartner on Aug. 19, the semiconductor market for sensors used in IoT devices is expected to surpass US\$10 billion by 2020. It means that the size of the market for IoT-oriented sensors is likely to be more than 10 times bigger than that of the current semiconductor market. The semiconductor market for IoT devices is also projected to grow 30 percent on average each year, to reach US\$43.472 billion by the same year.

Experts agree on the outlook that sensors for IoT devices will lead the growth of the semiconductor market after smartphones. According to a recent report on the global semiconductor industry published by Consulting firm KPMG, 61 percent of executives from major semiconductor companies named sensors as a growth factor in the semiconductor market this year.

Samsung Electronics, which has the world's largest semiconductor business unit, mostly depends on foreign manufactur-

ers to secure sensor chips used in mobile devices and consumer electronics, except for image sensors. SK Hynix embarked on the development of sensors for IoT devices in partnership with local venture firms last year, partly using fabless manufacturing. However, the chip maker apparently does not have any plans to make full-scale expansion into the market.

The Ministry of Trade, Industry and Energy (MOTIE) is also responding passively. Last March, it announced a half-hearted measure to foster the industry, and has failed to find proper companies. According to an official at the MOTIE, the ministry has difficulty finding companies suitable for 11 national projects in the smart sensor area, which were made public in March 2015. Some projects have reportedly been unable to attract applicants, and thus the ministry is changing its plan.

On the other hand, Japan, which comprises 40 percent of the global sensor market, is preparing for the IoT era based on industry-academic cooperation, led by the government. Toshiba, Hitachi, NTT, and TDK are working to develop cutting-edge sensors through cooperating with academic circles. With Japan emerging as a center of next-gen sensor technology, Apple is also actively seeking to enter the market, as shown by its decision to set up a research center in Yokohama, Japan this year. 

## Sandwich of Things Samsung Sandwiched between US, Chinese Companies in IoT

by Cho Jin-young

Samsung Electronics is likely to be sandwiched between U.S. and Chinese enterprises and to struggle in the rapidly growing Internet of Things (IoT) area as a result.

"Like in the case of smartphones, Apple and Google will dominate smart home platforms, and Chinese companies will stand out from the crowd in hardware production," said the KT Economics & Management Research Center in its recent report, according to industry sources on Aug. 9.


As for Apple, which showcased a smart home platform called Home Kit last year, the report said, "If Apple is unable to nab the top spot in the smart home market, it will be able to make huge profits from the market with a form optimized for the Apple ecosystem."

Related to Google, which acquired home gadget maker Nest Labs in 2014, it noted, "Google will offer an unparalleled service based on its cloud and big data technology."

On the other hand, the report negatively portrayed the business value of Samsung, which bought IoT platform developer Smart Things, by saying, "Any company that dominates platforms can be a dominant player in the smart home market." It added, "The industry is doubtful about Samsung's ability to successfully operate its platform business, since the tech giant has never succeeded in the field." The failure of Samsung's Bada operating system and the abandonment of its content business were mentioned in the report as well.

The report stressed, "Overall, advanced software technology is necessary to complete platforms," adding, "Companies like Apple or Google are in a more advantageous position in the market than small and mid-sized venture firms or Samsung."

When it comes to Chinese companies, it said, "Alibaba, Xiaomi, Haier, and Baidu are actively engaged in the smart home business," adding, "They are highly likely to lead mid-range and low-cost products."

The report also said, "Apparently, local companies don't have much time to search for an answer to survive and to show results amid fierce competition with Apple, Google, and Chinese firms." 

### Three-way War

## Three Local Mobile Carriers Waging War to Take Initiative in IoT Market

by Cho Jin-young

As the market for the Internet of Things (IoT), in which it is possible to control home appliances and home security systems via smartphones is growing rapidly, the nation's three mobile


carriers have started to compete with each other for market share.

Three carriers are increasing their market share with special strategies to take up new areas. SK Telecom is focusing on growing the number of smart home devices led by small and mid-sized hardware manufacturers. KT is trying to make contact with large consumer electronics makers. LG U+ continues its partnerships with small and medium-sized manufacturers, in addition to its partnership with LG Electronics.

According to industry sources on Aug. 24, LG U+ is targeting consumers with the launch of a smart home service called IoT@home. With the mobile carrier actively seeking to expand the B2C market, there are visible signs of a major business achievement. Around 100,000 people have subscribed to the IoT@home service, only three weeks after its release in July.

SKT and KT are also working to find partner companies rather than improving their brand image. The nation's largest carrier is concentrating on building an IoT ecosystem in partnership with various types of manufacturers from small and mid-sized to large companies. The carrier recently signed an agreement with Jung Woo Construction Company for the first smart home-authorized apartment to create a smart home platform and an IoT ecosystem that encompass apartments, home appliances, and household items.

KT is working to obtain supplies from large businesses. The company is sketching out a blueprint with more weight paced on the B2B business instead of the B2C business. The second-largest carrier is currently considering a measure to utilize retailers and cell phone stores under direct management, where the company can control the sale of IoT products. This consideration can be interpreted to mean that the carrier intends to tout its strong points in distribution by decreasing the cost needed for the distribution of consumer electronics and securing a new business that runs retail stores for mobile telecommunications through a measure to bring the distribution of home appliances made by large businesses into the area of telecommunications products.

KT is also said to be considering a project of parceling out apartments equipped with an IoT system in partnership with a large builder, utilizing its affiliated construction company. It is also planning to showcase the same IoT platform as that of SKT and LG U+ soon. 





## Taking Initiative

# Korea to Lead Discussions on 6GHz Standardization for 5G Networks

by Cho Jin-young



Korea is actively seeking to take the initiative in discussions to standardize the 6GHz frequency band, in an effort to lead the 5G standard frequencies discussion. The nation is also aiming to increase its influence in international organizations by leading discussions on frequencies for the next-gen ICT area, including with drones, driverless cars, and wireless power transmission.

The Ministry of Science, ICT and Future Planning (MSIP) announced that it led efforts to discuss radio waves in the Asia Pacific region during the fifth WRC-15 preparatory meeting for ITU Members in Asia Pacific (APG-15-5), which took place in the Millennium Seoul Hilton between July 27 and Aug. 1.


The MSIP organized this event to create a final joint proposal for the Asia Pacific region prior to the World Radiocommunication Conference 2015 (WRC-15) to be held in Geneva, Switzerland from Nov. 2 to 27. The WRC is responsible for determining the Radio Regulations, the international treaty governing the use of the radio frequency spectrum and geostationary and non-geostationary satellite orbits.

The government agency said that it successfully included an agenda to secure additional frequency bands above 6 GHz as next-gen frequency bands for 5G networks in the final joint proposal. It is planning to come up with a specific plan to utilize the 6GHz frequency band during WRC-19 and to commercialize the frequency band by 2022.

It is difficult to steadily transmit radio waves to large areas in the 6GHz spectrum, according to the government. However, Seoul plans to widen its usability through research to advance 5G networks, under the circumstances that frequencies are getting depleted. 5G networks generally send radio waves nationwide for wireless Internet access using low frequency bands below 3GHz, and combine and use high frequency bands at a short distance.

The MSIP is aiming to utilize the 6GHz frequency band for

mobile broadband through technological research. An official at the MSIP noted, "We've recently succeeded in transmitting data from the 6GHz frequency band to a remote place with connection speeds of up to 7 Gbps." The official added, "We are going to devise a specific plan with the aim of introducing the agenda during WRC-19 and commercializing the 6GHz frequency band by 2022, thereby leading the efforts to standardize the frequency band."

At the event, 29 final joint proposals were adopted, including the 700 MHz frequency band for the national disaster safety communications network and radar frequency bands for cars. New agendas to allocate frequency bands in the fields of intelligent transportation systems, railway communication, and wireless power transmission were cultivated as well. 

## Virtualization

# SK Telecom Announces Leading 5G Technology Strategy at IDF 2015

by Cho Jin-young



SK Telecom attended the Intel Developer Forum (IDF) held in San Francisco from Aug. 18 to 20, and presented its leading 5G technology development results and the innovative strategy to upgrade its data centers.

As the only South Korean company invited to the 20th IDF in 2015 as the speaker in the mega-session, SK Telecom Chief Technology Officer Choi Jin-sung shared the strategies and solutions to shift 5G network paradigms, along with Verizon and Ericsson.

At the "next-generation data center" event jointly organized by Intel and Ericsson, the company announced a plan to upgrade its data centers by applying software-defined data centers (SDDC), which are based on the next generation data center architecture "Rack Scale Architecture" (RSA). The SDDC is a next-generation data center technology that virtualizes all elements of data center infrastructure with software, and automatically controls and manages them.

SK Telecom CTO Choi Jin-sung predicted that the virtualization-driven SDDC will become a core technology to establish the 5G networks of the future. 

## Gear A Comeback

# Will Samsung's Smart Watch Gear A Drag Down Sale of Apple Watch?

by Cho Jin-young

The global smart device industry is paying attention to whether or not Samsung Electronics' next smart watch will be unveiled along with the Galaxy Note 5 on Aug. 13.

Samsung hasn't released a new smart watch since the launch of the Apple Watch early this year, and Apple's share of the global smart watch market has increased sharply to reach over 75 percent. Prior to the introduction of the Apple Watch, Samsung's smart watches accounted for around 70 percent of the market.

As a result, if the Korean tech giant actively targets the smart watch market by unveiling a new model on Aug. 13, fierce competition between Samsung and Apple in the global smart watch market is expected once again.

According to industry sources and major overseas media outlets on Aug. 2, Samsung is likely to showcase a new smart watch during this year's Galaxy Unpacked event in New York on Aug. 13, together with the Galaxy Note 5 and Galaxy S6 Edge Plus.

The Korean tech company is going to reveal its mobile payment service Samsung Pay at the event, since smart watches are especially optimized to increase the use of the service.

A Samsung official said that its new smart watch will feature Samsung Pay so that the device can be used for public transportation or simple payment services.

Samsung's next smart watch is expected to have a round

super AMOLED screen with a pixel resolution of 360x360, and it is likely to sport Tizen 2.3.1 rather than Google's Android as an operating system. The most notable characteristic of the new model is that users will be able to navigate menus by rotating the bezel ring.


In addition, the new smart watch is said to have the dual-core Exynos 3472 processor, 768 RAM, 4 GB of memory, Bluetooth 4.1, WiFi, a GPS navigation system, an accelerating sensor, a gyro sensor, a heart rate sensor, and a barometer.

The Korean tech company is scheduled to showcase the Galaxy Note 5 and Galaxy S6 Edge Plus in New York on Aug. 13, and the Gear A is also expected to be unveiled at the event.

To date, Samsung hasn't made specific comments on its next smart watch in the teaser poster. Nevertheless, the company is highly likely to introduce its smart watch to the market within the year, whether it is Aug. or Sept.

Much attention is being paid to whether or not Samsung's next model will snatch market dominance from the Apple Watch.

The Apple Watch comprised 75.5 percent of the global smart watch market in the second quarter of this year, which placed the model in the top spot, according to research firm Strategy Analytics. It means that when the Apple Watch was introduced to the market, it instantly became the most popular model in the smart watch market. Samsung, on the other hand, saw its market share dive from 73.6 percent in Q2 2014 to 7.5 percent in Q2 of this year.

An industry source noted, "The role of Samsung's next smart watch aimed at challenging the Apple Watch is growing, in order for the company to reclaim the top position in the smart watch market." The source added, "With Samsung making a software development kit public to secure killer apps, it has focused on creating an ecosystem for smart watches, as shown by its development of apps suitable for smart watches, together with several business partners and developers. So, competition between the two companies is highly anticipated." 





## InstaHallyu

# Instagram Targets Korean Mobile Ad Market Backed by Hallyu

by Cho Jin-young

**S**ocial networking service Instagram is actively targeting the Korean mobile ad market.

The Facebook-owned Instagram, which has 200 million global users per day as of April, is strengthening its services in the nation, according to major overseas media outlets and industry sources on Aug. 18.

Last April, the SNS service provider launched @music, a new account that provides various types of music-related content to users, and also introduced No Brain, a first-gen Korean indie band, to music fans around the world.

As K-pop and K-drama stars, the driving forces behind the Hallyu (Korean Wave), are confirmed to have far-reaching influence in Instagram, the SNS service provider is expected to augment its power in the Korean market.

According to data compiled by Instagram from May 2014 to May 2015, Korean stars have 150 million followers worldwide.

A spokesperson for Instagram said, "Big Bang's G-Dragon secured 4.5 million followers, and 97 million comments were posted on the blog of EXO's Chanyeol through 154 pictures during the cited period." The official added, "Amid K-pop fever in the world, the influence of Hallyu stars is strong on Instagram."

Hallyu is a Korean word meaning tsunami, and is used to refer to the impact that Korean pop culture has on the rest of the world.

Instagram ads will also reportedly begin in earnest in the nation in as early as Sept.

With companies worldwide waging a mobile ad war, Instagram is providing mobile advertising services in the U.S, the U.K., France, Germany, Brazil, Canada, Australia, and Japan. It recently announced a plan to introduce its ad services to more countries through its own business blog. Industry sources are saying that Korea is included in the list of countries.

The core of Instagram's ads is to induce users to actively participate in Instagram by creating buttons for the purchase and installation of apps, and memberships.

Market research firm eMarketer recently reported that Instagram would earn US\$595 million from mobile ads this year.

eMarketer said, "Instagram's advertising business will continue to grow for years," adding, "It will post US\$2.81 billion of profits from ads in 2017, accounting for more than 10 percent of Facebook's total ad profits." The number exceeds sales from mobile ads posted by Google and Twitter combined.

The competitiveness of Instagram ads are widely acknowledged to be hashtags. Among Instagram users, 80 percent are in their mid-teens to mid-thirties, and it is possible to identify their desire to purchase by analyzing hashtags.

An official at a local SNS service provider noted, "The great advantage of advertising on Instagram is that it is possible to target a specific audience by analyzing users," adding, "Another advantage is that people in their twenties or thirties with big purchasing power are Instagram's main users."

Naver and DaumKakao are, therefore, showcasing an increasing number of hashtag-based mobile services, but observers say that the introduction of Instagram ads to the nation will be a serious blow to local mobile SNS service providers. **by**





## Online Posturing

# YouTube Challenged by Local Online Video Service Providers in Korea

by Cho Jin-young

Naver and DaumKakao are actively seeking to take back the local Internet service market of online video services, taxi services, and SNS from foreign companies. In particular, they have appeared to strengthen their position in the online video market by narrowing the gap with their rival YouTube.

According to industry sources on Aug. 10, Korean portal operators are targeting the local market by releasing services to curb the dominance of foreign Internet giants like Google. As a result, the dominance of foreign companies in the local Internet service market is weakening.

The field of online video services is most noticeable. The combined number of people who use Naver and DaumKakao's online video services via PCs each month (13.6 million) recently surpassed YouTube's monthly users (11.8 million) in the country, according to market research firm Nielsen-Korean-Click. Last July, YouTube had 12.48 million Korean users, more than the 4.54 million of Naver and the 5.62 million people of DaumKakao combined.


YouTube is experiencing a decline in the number of PC users in Korea this year. The number of YouTube users in Korea reached 12.48 million in July 2014, but the figure was only 11.8 million in June 2015, a decrease of 6 million Koreans. The num-

ber of people who accessed YouTube via mobile devices also decreased from 5.92 million to 4.32 million during the same period, down 1.7 million.

This phenomenon seems to be somewhat affected by YouTube's decision late last year to discontinue a service that shows short videos made by local terrestrial broadcasting companies. During the period, Naver and DaumKakao heightened their position in the local online video service market by adding video clips of terrestrial broadcasters and content specialized for online videos like web dramas or real-time broadcasts.

The online video advertising industry is noticing this kind of change. An official at an online video advertising company said, "In the past, when it came to online video advertising, YouTube was thought to be the only ad platform." The official added, "As far as I know, the price of ads on Naver and DaumKakao is increasing due to a growing amount of traffic in their video platforms, like YouTube."

In addition to online video services, the local industry seems to be taking the lead in the call taxi app market as well, after being outperformed by Uber last year. Kakao Taxi, which was launched by DaumKakao in the first half of this year, recorded more than 200,000 taxi calls, becoming the number one taxi app in the market. Naver is also targeting the mobile SNS market by showcasing an interest-based mobile SNS called Polar last month to counter Instagram, famous for sharing photos.

Industry analysts predict that Naver and DaumKakao will introduce new services to the mobile market or strengthen existing services, and local companies will keep their stronghold in the market as a result. An associate at a portal operator noted, "The idea of local companies beating YouTube in the local online video market was unimaginable last year," adding, "As Naver and DaumKakao are both targeting the market in various ways, the local industry is no longer afraid of foreign companies." 



## Virtual Reality Real Gaming Companies to Launch Online, Mobile Games Using Virtual Reality

by Cho Jin-young

Many game developers have started to develop games in earnest to release new products, using Virtual Reality (VR) technology based on smart devices.

According to industry sources on Aug. 19, Neowiz Games and other local gaming companies are currently considering whether or not to make games that use VR technology. Their consideration is due to the fact that the VR market is being created in the nation, as shown by the fact that the Oculus VR, a dominant player in the VR market, is scheduled to introduce the Rift, a head-mounted display, to Korea early next year.

First, Neowiz Games decided to offer the Oculus Rift to users of its new online action-RPG game Asker. To enjoy the game, they are only required to connect their PC to a VR device, put on a headset, and select the VR mode. NCsoft is also paying a lot of attention to VR, spurring the development of artificial intelligence (AI) technology through its AI lab. An official at Oculus VR Korea said, "An increasing number of game developers are requesting our company to provide support for R&D in VR technology."

Samsung Electronics is demonstrating a VR version of popular mobile game Angry Birds in the Westfield San Francisco Centre, a shopping mall located in San Francisco. By wearing Samsung's first VR headset Gear VR, the wearers can get the feeling that they are flying, chasing the bird in games. Without expensive 3D TVs, it is possible to enjoy 3D games, which is grabbing consumers' attention.

U.S.-based gaming company Valve is actively seeking to dominate the VR games market by launching Steam VR, a platform for VR games only. It has already developed a head-mounted display called HTC Vive, together with Taiwanese smartphone maker HTC.

VR technology drew a lot of attention during this year's E3, the world's largest trade show for computer and video games, which was held in the Los Angeles Convention Center last



June. At the event, Microsoft announced its partnership with Oculus VR in an effort to make its video game console Xbox One compatible with Oculus VR's Rift. The software giant decided to release Halo 5: Guardians and other video games for Xbox One only, using the Rift, which is planned for release in 2016.

Sony, on the other hand, is going to roll out a VR headset called Project Morpheus, which can only be played using its video game console PlayStation 4, in the first half of 2016. The Japanese company also showcased 4 trailers that give an opportunity to experience VR at the event. On top of that, the Walt Disney Company recently said that it will introduce virtual and augmented reality technology into its video games.

However, experts are pointing out that there is much room for improvement in the core VR headset technology, which determines how much the wearer can be immersed in VR. A comfortable headset, an improvement in rotational latency, and good image quality are required to get the wearer immersed, but current technology is unable to realize this immersion well enough to let the wearers believe that their experience is real. First, it will be necessary to reduce the size of VR headsets and make them lighter. Oculus VR and Sony Computer Entertainment have yet to reveal the exact weight of their products, since they are conscious of their competitors. To address the problems with headsets, Samsung is currently developing a successor to the Gear VR, so that people can wear the new model much longer.

Image quality is cited as the biggest factor that determines whether or not users can be immersed in VR. It is also decided by the refresh rate, the number of frames per second a monitor can display, and the resolution of a display. At least 75Hz in image quality – the ability to show 75 images per second – and a 1920×1080 resolution full HD display are necessary to prevent people from becoming nauseated. <sup>BR</sup>

## Sure Bets

# Game Developers Concentrating on Already Popular IP Content

by Jung Min-hee

An increasing number of mobile game developers are making use of pre-existing intellectual property (IP) these days. Popular webtoons, online games, and messenger character emoticons are being incorporated into mobile games.

The 2D mobile role-playing game God of High School, developed by YD Online and based on cartoonist Park Yong-



KakaoTalk's flagship animated characters.

je's Naverwebtoon of the same title dating back to April 2011, recently hit two million downloads on the Google Play store. NHN Entertainment is currently working on a 3D side-scrolling version of the God of High School to launch it in the third quarter of this year.

In addition, NHN Entertainment is planning to release a game based on the webtoon titled Tower of God before the end of the third quarter and Friends Pop for Kakao within this month. Friends Pop for Kakao is the first casual puzzle game using the emoticon characters of the Kakao Talk mobile messenger. More than 550,000 users subscribed to it on the first pre-sale day.

In the meantime, Netmarble Games is developing a mobile version of NCSoft's online MMORPG Lineage 2. The two companies formed a strategic partnership to that end early this year. Lineage 2 is one of NCSoft's flagship products, launched 12 years ago. Netmarble Games is in charge of development, while NCSoft provides the IP.

XL Games is working on a mobile version of the online game Archeage, too. The company is working together with mobile game publisher Gamevil for the purpose. Once the former comes up with the mobile game, the latter handles marketing and publishing.

The increasing popularity of pre-existing IP in the industry is because a greater chance of success can be ensured with already popular webtoon and animation content. "The utilization of webtoons is an important trend in today's entertainment sector," said an industry expert, adding, "A lot of TV dramas and movies based on webtoons have already achieved success, and games are also following the trend nowadays." He continued, "It can be a very viable option for Korean game developers, as competition with Chinese and European firms as well as among themselves is becoming more and more intense." <sup>BR</sup>



## Record-setting Expansion

### SK Hynix Begins to Run World's Largest Semiconductor Factory


by Michael Herh

On Aug. 25, SK Hynix held a ceremony in honor of the completion of the M14, the world's largest semiconductor factory in its headquarters in Icheon, Gyeonggi-do. The ceremony was held under the theme of "Great Challenge to Create a Better Future," with the participation of 400 VIPs including Chey Tae-won, chairman of the SK Group, Yun Sang-jik, the minister of trade, industry and energy, and Nam Kyung-pil, governor of Gyeonggi-do.

M14 is a semiconductor factory for 300 mm wafers, and the first new factory built by SK Hynix in Icheon in 18 years. The site of the factory is 53,000 square meters, which equals the size of 7.5 football fields. The new factory boasts the world's largest single clean room building, which has a total floor space of 66,000 square meters and has a monthly production capacity of 200,000 wafers.

SK Hynix will begin to produce memory semiconductors with the world's strongest competitiveness at the cutting-edge factory. A total of 15 trillion won (US\$12.6 billion) will be invested in this factory, which will secure a monthly production capacity of 300,000 wafers by the end of this year.

On the day, the company also unveiled a plan to build two more semiconductor factories in addition to M14 by investing a total of 46 trillion won (US\$38.7 billion) in this future vision. A total of 15 trillion won will go into M14 and 31 trillion won (US\$31 billion) into the two additional factories. Therefore, SK Hynix will build three new factories in total in the next ten years.

The Economic Research Center at Seoul National University estimated that sales generated by the M14 plant will create economic effects of 55 trillion won (US\$46 billion) and create 210,000 jobs in the national economy. Moreover, the center expects investment in M14 to bring about production effects of 5.1 trillion won (US\$4.3 billion) and give 59,000 people jobs. SK Hynix expects that massive investment in the two new factories will create economic effects three times as much as the investment into M14. SK Hynix is planning on contributing to enhancing Korea's national competitiveness and promoting the Korean economy by successfully building new factories through close cooperation with the central and local governments in the future. 



President of SK Group Choi Tae-won gives a speech at the inauguration of M14 at the main office at Icheon on Aug. 25.

## Sixteen Terabytes

### Samsung to Release 16TB SSD Next Year

by Cho Jin-young

Samsung Electronics will reportedly release a 16 TB solid state drive (SSD), the world's highest-capacity SSD, next year. With the storage of SSDs surpassing that of hard disk drives (HDDs), SSDs are expected to replace HDDs entirely soon.



Samsung's 16 TB solid state drive (SSD).


According to industry sources on Aug. 16, Samsung is likely to introduce a 15.36 TB corporation-oriented SSD named the PM1633a to the market early next year, which was previously showcased in the U.S. in the second week of this month.

"Considering Samsung's technical capability, I think that it will be possible to commercialize the PM1633a by early next year," noted Michael Yang, director of the memory and storage research teams at IHS iSuppli. He added, "Since only one 16 TB-level SSD is required to store the data from as much as four of the latest SSDs combined, the cost needed to build a high-capacity server can be drastically reduced."

The largest current HDD can store 10 TB of data. But thanks to an advance in NAND flash-making technology, the storage capacity of SSDs has increased rapidly. Once this 16 TB SSD is commercialized, the capacity of SSDs will surpass that of HDDs for the first time.

Industry analysts estimate the initial price of the 16 TB SSD to be US\$5,000 to US\$7,000.

Samsung's success in developing an SSD with the largest storage capacity is attributable to the recently-started mass production of the 3rd-gen 3D V-NAND. With the mass production, the Korean tech giant was able to double the storage capacity of NAND flash used in SSDs from 128 Gb to 256 Gb. The PM1725, which launch was announced when the PM1633a was unveiled, features 2nd-gen 3D V-NAND capable of storing up to 6.4 TB of data.

Samsung, the only company capable of mass-producing 3D V-NAND, is expanding its influence in the next-gen storage device market by leading the dominance of SSDs. However, the company is followed closely by Toshiba and SK Hynix. Previously, the Japanese firm said that it also successfully developed a technology for 3D V-NAND in early Aug. that can make the 16 TB SSD, and the Korean chip maker is said to have a plan to make a sample of 3rd-gen 3D V-NAND, like Samsung. 

## Solid State Hynix


## SK Hynix to Mass Produce Ultra-fast SSDs Starting in October

by Cho Jin-young

SK Hynix will mass-produce ultra-fast solid state drives (SSDs) using Non-Volatile Memory Express (NVMe) starting in Oct. The chipmaker, which has been lagging behind Samsung Electronics, Intel, and Toshiba in the SSD business, is likely to increase its competitiveness in the next-gen memory market like SSDs or High Bandwidth Memory (HBM), based on the full support of SK Group's Chairman Choi Tae-won, who recently got out of jail.

According to industry sources on Aug. 24, SK Hynix plans to mass produce PC300, a new NVMe-based M.2 SSD from Oct., and to supply the product to its customers. NVMe is an ultra-fast data transmission standard developed especially for SSDs to get the most out of their performance. So far, NVMe has mostly been used for servers, but the standard is apparently taking root in the laptop market this year, starting with Samsung.

SK Hynix's new SSD is a 512 GB NVMe-based M.2 SSD. Considering Samsung's success in the mass production of a new product with virtually the same specs for the first time in April of this year, SK Hynix's achievement indicates that the chipmaker, which has failed to have a presence in the SSD market, is now following Samsung's technology with a six month gap. Toshiba will be able to mass-produce NVMe-based M.2 SSDs late this year.

SK Hynix is also preparing to mass-produce second-gen HBM, a next-gen memory chip. The company already supplied first-gen HBM to AMD and Nvidia this year, and it is going to begin full-scale expansion of its second-gen HBM business next year. A source in the semiconductor industry said, "Intel, the world's largest semiconductor company, has recently introduced embedded DRAM and 3D cross point memory, leading to a generational shift in memory chips. So, I think that the commercialization of HBM will speed up." 



## Pivot

## Semiconductor Foundries Switching to Mass-customization Strategy

by Cho Jin-young


Amid the slowdown in global memory semiconductor market growth, major semiconductor companies are strengthening their foundry businesses. In particular, Samsung Electronics and Taiwan Semiconductor Manufacturing Company (TSMC), which have heavily relied on Apple's application processor (AP) business, are now switching their strategy toward mass-customization production in order to lessen their dependence on the U.S. company.

According to market research firm Gartner on Aug. 26, the amount of semiconductors purchased by small and mid-sized firms from foundries in the Chinese market increased from US\$7.5 billion in 2007 to US\$14.9 billion in 2014. Globally, small and mid-sized firms bought semiconductor chips worth US\$78.3 billion last year, comprising 23 percent of the global semiconductor market.

Currently, 165,000 companies around the world are buying chips from foundries. Among them, the amount of semiconductor chips purchased by top 10 companies like Apple, Qualcomm, and Nvidia represents 40 percent of the total.

In fact, the sales of TSMC, the world's largest semiconductor foundry and Apple's largest business partner, come from 90 nm, 80 nm, 65 nm, and 55 nm APs, in addition to 28 nm microprocessors. Semiconductors for consumer electronics, industrial systems, and PCs made up 40 to 50 percent of the company's total sales last year.

Samsung is also trying to expand the scope of its foundry business, focusing on APs to chips for GPUs, set-top boxes, the Internet of Things (IoT), and radio frequency communications. If its 28 nm FD-SOI process technology that was introduced last May is utilized, the Korean tech giant can diversify its foundry business and reduce costs too.

SK Hynix, which is still preparing for market entry, is also paying attention to other kinds of semiconductors aside from APs. The company has increased the production of 90 nm foundries so far this year, and has decided to change its direction from the mass production of a few products to diversified small-quantity production. If CEO Choi Tae-won's investment drive dovetails with SK Hynix's new strategy, the chipmaker is likely to enter the IoT and automotive semiconductor markets much faster, in addition to existing CMOS image sensors and Power Management Integrated Circuit (PMIC) businesses. 





## Domestic Auto Increase

## Domestic Sedan Sales Decrease, While Total Car Sales Increase

by Jung Min-hee

Although domestic car sales this year have increased compared to last year, the sales of sedans have decreased.

The combined sales of five domestic automakers from Jan. to July this year, excluding commercial vehicles, stood at 714,000 units, up 3.1 percent from the same period last year. However, 27 out of 29 domestic sedan models saw a drop in sales.

As of July, the cumulative sales of Hyundai Motor's i30 decreased as much as 55.8 percent from a year earlier, showing the biggest drop. The trend is largely due to the rising demand of sports utility vehicles (SUVs) and minivans, as more and more Korean people enjoy leisure activities. Also, there were no new sedan models in the first half of this year.

Despite the poorest-ever results of sedan models this year, recreational vehicles are showing good results. The cumulative sales of the Kia Sorento and Carnival as of July grew as much as 280.8 percent and 92.7 percent, respectively, from the same period a year ago. BK



The "All New Sorento" of Kia Motors has been leading the popularity of SUVs in the local market.

## Foreign Auto Renaissance

## Dozens of Foreign Car Models Hit Yearly High Sales in Korea Last Month

by Jung Min-hee



According to the Korea Automobile Importers & Distributors Association, 39 models of 15 brands hit yearly high sales in Korea last month. Eight percent of the models available in Korea reached new yearly highs, while the number of newly-registered imported vehicles decreased by 14.7 percent from a month ago. Most of the 39 models were the main models put to the forefront by their respective automakers.

It was BMW that led the trend. BMW is currently selling 72 models in Korea, and no less than eight of them reached yearly high sales last month. The sales volume of the 420d Gran Coupe, for example, skyrocketed from 23 to 124 between June and July this year. Mercedes Benz, in the meantime, sold 143 B200 CDIs last month, whereas the model's sell-through for the 12 months of 2014 had been 465.

The back-to-back records are pretty unusual, in that July is a low season when many people go on vacation, and the number of imported cars sold in Korea is on the decline these days.

It seems that foreign car brands beat the low season and the downturn by means of marketing efforts in the form of an aggressive expansion of their lineups. BK



## Defective Autos

# Number of Cars Recalled Has Doubled from Last Year

by Jung Min-hee

The number of cars recalled in South Korea this year has already amounted to 850,000 units to date, reaching the total figure last year. According to data from the Transportation Safety Authority on Aug. 19, 849,149 vehicles of 265 models have been recalled so far this year. Last year, a total of 869,808 units – 733,175 vehicles of 32 domestic models and 136,633 vehicles of 400 foreign models – were recalled. This year, 745,829 of 25 models were domestically produced cars, while 103,320 of 240 models were imported vehicles, out of the total.

The number of cars recalled between Jan. to Aug. this year marks a 54 percent spike from the same period last year, while the number of car models grew 10.9 percent. Last year, a total of 551,270 units – 487,508 vehicles of 17 domestic models and 63,762 vehicles of 2244 foreign models – have been recalled between Jan. to Aug. A total of 392,053 units of SM3 and SM5 passenger cars from Renault Samsung Motors Co. were recalled, due to engine mount defects this year, showing the highest figure.

The automakers that topped the recall list in the first half of 2015 are GM Korea in the domestic automaker sector and Mercedes-Benz in the foreign automaker sector.

According to data from the Korea Transportation Safety Authority (TSA), the number of homemade vehicles recalled in the first half of this year amounted to 428,285 units, including two-wheeled vehicles and commercial vehicles. The figure was down 18.3 percent from the same time last year.

GM Korea recalled a total of 217,000 vehicles during the first half, showing the highest figure among five domestic auto-


makers. Its figure makes up more than half, or 50.7 percent, of the number of all domestic vehicles recalled.

For the recall list of a single model, the GM Korea Cruze also ranked first, while the Malibus and Alpheons ranked third and fifth, respectively. The Kia Bongo and the Hyundai Avante came in second and third on the list. In particular, GM recalled 95,000 Cruzes in Feb. due to defective brake hose parts. An official of GM Korea said that it is largely due to the fact that the company is taking a strict policy to voluntarily recall its vehicles if any fault is spotted after the recall crisis of GM.

Hyundai Motor took second place in the recall list, recalling 56,000 vehicles in the first half of this year. The company recalled 10,000 Grandeur Hybrid due to a faulty electronic program in the vehicle's brake system that may fail to warn the driver of a leak or lack of brake fluid, leading to brake system failure. Also, Hyundai recalled 36,000 Avantes due to a defective software system related to motor driven power steering (MDPS).

Kia Motors, which recalled 47,000 Bongos in Feb., ranked third. The company recalled a total of 53,000 vehicles in the first half of this year. Renault Samsung Motors recalled 31,000 vehicles during the same period, taking fourth place, while Ssangyong Motor did not recall any vehicles, standing at the bottom of the list.

Of foreign carmakers, Mercedes-Benz ranked first by recalling 34,000 in the first half of this year alone. The company recalled 16,000 cars, including the E-Class, in March due to a risk of engine fires. Engine-related defects were the main reasons for the recall. BMW Korea came in second by recalling 10,548 vehicles. The total number of its vehicles recalled was lower than that of Mercedes-Benz. However, the number of its models recalled amounted to 55, which is the highest in the industry, while the figure for Mercedes-Benz was 37. Although the figure included the MINI and Motorad, the motorcycle brand of BMW, the BMW figure alone also stood at 35.

Market experts attributed the increase to intensified penalties for failures to issue necessary safety recalls and to active and voluntary steps by manufacturers to correct problems. 



## Labor Understanding

# GM Korea Reaches Agreement with Labor, Following Renault Samsung

by Jung Min-hee



Minister Lee Ki-kwon (7th from left) poses for a photo with Renault Samsung Motors President Francois Provost (6th from left) and the company's Union President Choi Oh-young (8th from left) after the meeting.

South Korea's auto industry has been suffering from strikes every summer. However, it is wrapping up talks on wages relatively fast, without particular disputes this year.

As there are growing concerns over struggling auto industry at home and abroad due to the economic recession, the labor unions in the domestic industry are all settling wage negotiations with the companies, without a single strike to date this year.

According to auto industry sources on July 28, GM Korea is highly likely to finalize the wage deal as early as the end of this week. On July 27, its union reached a tentative agreement with the company, and it will finalize the agreement as soon as possible by vote.

GM Korea's union has already decided to go on strike. However, labor and management both came up with a tentative agreement the day before. Under the agreement, the company will raise the base pay by 83,000 won (US\$71), while giving a 6.5 million won (US\$5,572) bonus when an agreement is signed. It will also provide a 4 million won (US\$3,429) performance-related bonus at the end of this year. This is a step back for the labor union. Previously, they demanded a raise to the base pay by 159,900 won (US\$137), and to provide a performance-related bonus of 500 percent.

Renault Samsung Motors' management and labor also finalized the wage agreement without disputes on July 23,

which includes a base pay increase of 2.3 percent and a 7 million won (US\$6,000) incentive for the compromise.


Now, only Hyundai-Kia Motors and Ssangyong Motor are left. The negotiations of Hyundai-Kia Motors are expected to start in earnest from the second week of Aug., when vacation season ends.

This year, Hyundai Motor will negotiate on both wages and collective bargaining, while Kia Motors will have talks on only wages. Since Hyundai Motor's management and labor had the first meeting, they held dozens of rounds of talks until now. However, the talks so far are more like exploratory procedures between management and labor, since the vacation season for production workers starts from the first week of Aug.

The process of Hyundai Motors' labor and management talks is slightly different from the usual. In the past, labor made tough remarks and the management made efforts to create public opinion favorable to the company when negotiations made slow progress. However, both sides agreed not to talk about the negotiation process to the outside this year.

Kia Motors' management and labor have not yet met. Since they need to negotiate only wages this year, both management and labor are in no rush. It is said that Kia Motors' labor is currently straightening out internal regulations and preparing wage increase proposals.

Ssangyong Motor's labor is also currently in negotiations with the company over the base payment increase of 117,985 won (US\$101) and the reinstatement of dismissed workers. Since the company has finished the agreements without disputes in the last five years, the negotiations are expected to be concluded smoothly this year as well.

An official from the auto industry said, "For labor in the car industry, many political interests are internally entangled. So, they have no choice but to take a strong stand against the companies in negotiation. However, labor is also forming a consensus over the recent economic downturn with the companies this year." 

## Casino Resort Complex Requirements Minimum 1 Trillion Won Investment Needed with More than US\$500 Million Foreign Investment

by Jung Min-hee

For regions which can apply for a project to build and operate an integrated resort complex that would include a casino, a total of nine sites were selected, including six free economic zones in Incheon, Ung-dong in Jinhae Free Economic Zone of Gyeongsangnam-do, a redevelopment area in Busan North Port, and YeosuGyeongdo Tourism Complex in Jeollanam-do.

The Ministry of Culture, Sports and Tourism (MCST) announced on Aug. 27 that it will receive a request for proposal (RFP) to develop and run the integrated resort complex for three months from Aug. 27 to Nov. 27. The ministry received 34 requests for concept (RFC), the step before a Request for Proposal (RFP), for four

months from Feb. 27 to June 30.

As a result, all nine regions can submit RFPs. The evaluation committee assessed RFC proposals based on the superiority of project plans and the capabilities of possible developers, and proposed nine possible specific sites. Then, the MCST accepted the proposal and confirmed the nine finalists that can submit RFPs.

After reviewing the RFPs, approximately two final licensees will be chosen in Nov. The MCST said that it will decide the final number of licensees through RFP evaluations in a bid to clearly confirm the will of investors and avoid any possibilities to select licensees that can't carry out their projects.

For RFPs, the requirements include a



A perspective image view of a global theme park and resort in Jinhae Free Economic Zone, the site chosen as a finalist by the MCST.

minimum investment of more than 1 trillion won (US\$847.46 million), foreign investment of more than US\$500 million (590 billion won), and certain levels of credit ratings in order to confirm competitive investment demands. In particular, the requirements for RFPs will be equally applied to all operators, since there will be competition between and within the regions.

The integrated resort will feature various facilities such as a high-class hotel, international meeting facilities, cultural and art facilities, and a foreigner-only casino, aiming to become a global tourist attraction. In particular, it will include cultural and art facilities as essential facilities. **BK**

## Potential Disaster

## Berjaya Jeju Resort Halts Construction of Resort Complex in Jeju

by Lee Song-hoon

Development of the resort complex in Yerae, one of the core projects of the Jeju Free International City Development Center (JDC), has stopped.

The resort complex in Yerae was estimated to stretch 740 million square meters, with a total investment cost of 2.5 trillion won (US\$2.1 billion). The complex was planned to have a 1,531 room resort condo and a 935 room hotel, and also a casino, medical facility with 150 beds, swimming pool, and spa.

The project operator, Berjaya Jeju Resort (BJR), is a joint venture between JDC, an affiliated organization of the Min-

istry of Transportation, and a Malaysian conglomerate, the Berjaya Group.

Starting in March 2013, the company had completed the construction and pre-sale of 147 condominiums. Sixty percent of construction costs have been already paid.

The spokesman of the JDC said on July 15 that the project operator, BJR, requested the construction company to stop the construction and inform the government of Jeju and JDC about the decision on July 7.

On March 30, the Supreme Court of Korea overturned the decision for land expropriation during final appellate proceedings, as land owners filed against the

JDC's project and requested the cancellation of construction.

Although BJR continued the construction for 4 months after the ruling, it financially decided that it no longer has any meaning and pulled out.

As a result of the Supreme Court ruling, the pre-sale of condominiums is no longer possible. Moreover, loans from financial institutions have become inaccessible. Due to rising costs, the construction itself has become impossible. If the interruption will go on without any prompt resolution, there is high possibility that the project itself will be revoked. **BK**



An artist's depiction of the planned resort complex in Yerae, on Jeju Island.



## Chemical Profits

# Domestic Chemical Industry Sees Best-ever Results in Q2

by Jung Min-hee

The domestic chemical industry saw the best-ever results in the second quarter of this year, recovering from the slump last year. Chemical companies believe that such a boom will continue until this year, but they are making efforts to strengthen business competitiveness in order to prepare for possible slumps in the future.

According to industry sources on July 28, major domestic chemical companies including LG Chem and Hyosung are posting the best results ever in the second quarter. Hyosung recorded 255 billion won (US\$218.6 million) in operating profits, which is much higher than market expectations. It is also the highest figure for a single quarter. LG Chem also posted 563.4 billion won (US\$482.98 million) in operating profits in the second quarter. The figure is up 56.7 percent from the same period last year.


Lotte Chemical reported operating profits up by 160 percent from a year earlier in the first quarter, and is expected to record some 500 billion won (US\$428.63 million), which is the largest ever, in the second quarter. Hanwha Chemical also expects to see an improvement of its performance in the second quarter

thanks to better results in the petrochemical sector and a turnaround in the solar power sector.

Industry watchers say that it is largely due to, demand increase, short supply, and the stabilization of low oil prices. According to the Korea Petrochemical Industry Association, the price of the average ethylene spread in the second quarter stood at US\$847 (988,026 won), up as much as 61 percent from a year ago. Ethylene spread is naphtha prices subtracted from ethylene prices. The higher the number is, the higher a company will earn.

They also say that naphtha cracking centers (NCCs) in some Asian regions sequentially completed routine maintenance in the first half of the year, which is a major reason of the spread increase. The balance of demand and supply, however, will continue for a while, since some NCCs will start routine maintenance in the second half of this year.

However, industry sources have negative views on whether such a boom will last until next year. Due to the increase of petrochemical self-sufficiency in China and petrochemical facilities in India and the Middle East, general-purpose petrochemical products will experience supply excesses shortly.

Regarding this, domestic chemical firms are coming up with various measures to brace for bad business conditions in the future, such as fostering new businesses, reorganizing businesses, and slimming down the workforce. Hanwha Chemical has merged two of its chemical compounds to improve competitiveness in high-value-added materials. LG Chem is getting ready to diversify its business portfolio by strengthening its battery business for cars and future IT devices and developing new materials for energy. Lotte Chemical has joined hands with petrochemical firms in the U.S. to improve cost competitiveness by increasing ethylene production. 

A night time photo of Daesan Chemical Complex.



## Steel Problems

# US Steel Industry Files Complaint against Korea for Cold Rolled Steel

by Jung Min-hee

The U.S. steel industry has lodged a complaint against South Korea for dumping and providing illegal subsidies for cold rolled steel. Korean government and the local steel industry representatives, in turn, said that the accusation is simply absurd.

According to the Ministry of Trade, Industry and Energy (MOTIE) and the Korea International Trade Association (KITA) on July 29, five U.S. steel makers, including US Steel and AK Steel, filed complaints with the United States International Trade Commission and the United States Department of Commerce against eight countries, including Korea, China, India, and Brazil, requesting anti-dumping and countervailing duties on cold rolled steel.

In the complaint, the U.S. steel industry said, "U.S. steel makers were hurt by Korean exporter dumping. Therefore, anti-dumping duties between 93.32 and 176.13 percent should be levied." When it comes to countervailing duties, they cited 41 government assistance programs as illegal subsidies. The government's support for energy at below a reasonable price, short-term financial support for exports, and export financing insurance were included. Target companies for the investigation haven't been decided yet.

The local industry is keeping a close watch on the background of the complaint, but apparently they do not care about the issue that much in the sense that on the whole, oversupply in the export country is bound to affect export prices. Moreover, government assistance programs named by U.S. steelmakers were carried out in accordance with various provisions of the WTO. In short, they argue the U.S. industry is making unreasonable claims.

Jae Hyun-jung, a researcher at KITA, pointed out, "The problem is not about governmental funds," adding, "The global steel market itself is suffering from oversupply, and U.S. companies are experiencing financial difficulties as well. So, they are behaving irrationally to cover their losses." 



## China Danger

# Huge Challenge Ahead for Korean Cosmetics Manufacturers


by Jung Min-hee



Chinese companies are trying to snatch people and their expertise from the Korean cosmetics industry, as Korean cosmetics products are becoming increasingly popular with Chinese consumers.

Their favorite targets are R&D and production personnel working for major cosmetics manufacturers. The targets also include those who have 10 to 20 year careers in design or marketing, and Chinese working for Korean companies' branches in China that understand their development and production systems. It is said that a researcher with a 20-year career at a major company can have a minimum annual salary of 300 million won (US\$256,335) in China.

Under the circumstances, brain drain has accelerated since last year, when Chinese cosmetics manufacturers began to grow rapidly, and Korean companies are now predicting an uphill battle as their Chinese competitors are arming themselves with advanced technology to go along with their price competitiveness and economy of scale.

Small firms that are trying to set foot in China to avoid the recession in the domestic market could take a very serious hit. If their key workers move to Chinese firms, their ideas, production techniques, and expertise as the outcome of more than 10 years of trial and error would end up in the hands of China. At present, about 50 Korean firms are preparing to do business or launch new brands in China, but most of them have come to a deadlock amid the rapid growth of Chinese companies, which more than doubled their online market share in China to 20% in the past one year. The top nine Chinese cosmetics companies are recording an annual average growth rate of 32% these days. 



## Ships Building

# Korean Shipbuilders Winning Tanker Orders Back to Back


by Jung Min-hee

Early this month, Scorpio Tankers awarded Hyundai Mipo Dockyard two MR tanker and two handysize tanker contracts. The Monaco-based shipping company is also planning to place six more MR tanker and six more handysize tanker contracts soon. The contract amount is estimated at US\$34.5 million for each MR tanker and US\$32.5 million for each handysize vessel.

In the meantime, Maersk Tankers is expected to sign nine MR tanker contracts with Samsung Heavy Industries so that the ships are built at the latter's Ningbo Shipyard located in China. The ships, estimated at US\$32 million each, are scheduled to

be delivered by 2018. The subsidiary of the Korean company in Ningbo recently won four MR tanker orders from Greek firm Capital Maritime as well.

The Korean shipbuilders, including Hyundai Mipo Dockyard and Samsung Heavy Industries, obtained 82 out of 132 tanker contracts around the world in the first half of this year, when the number of orders for merchant vessels continued to decline.

Nowadays, that of tanker orders is on the rise as the demands for various petroleum products are going up with the international oil price more than halved in one year. Tanker freight is showing an increase as of late, too. 





## Still Positive Outlook

# DSME Forecasts Sales Normalization in Q3

by Jung Min-hee

**D**aewoo Shipbuilding & Marine Engineering (DSME) publicly announced the expected result for the first half of this year.

On July 29, the DSME said that it expects to post 6.14 trillion won (US\$5.29 billion) in cumulative sales and 3.08 trillion won (US\$2.65 billion) in operating losses in the first half of this year. An estimated net losses during the term stood at 2.56 trillion won (US\$2.21 billion). Compared with the figures from the same period last year, sales decreased by 23.4 percent, while operating profits and net losses turned to deficits.

As the company was held up in the process to build vessels for its inexperienced offshore projects such as Songa, which is a semi-submersible drilling rig, executive budgets increased, which in turn raised its losses, the company said.


With offshore projects becoming larger, more advanced and more challenging after 2010, both ordering and shipbuilding companies went through unprecedented confusion by EPC and turnkey contracting. The DSME explained, "Despite frequent changes of design, it was uncertain how much ship owners would compensate. There was also a limit to reflect the increase in production costs in advance. Accordingly, we could calculate the exact losses after considerably proceeding with production."

The company stressed that it normally performs the manu-

facturing process and conducts business operations despite major losses. It also said that it maintains the same financial transaction system so there is no problem with its liquidity.

The DSME expects to normalize results from the third quarter when it starts building high-value-added vessels, including liquefied natural gas (LNG) carriers, for the numerous contracts that the company won last year. An official from the company said, "Since predictable shipbuilding losses for the current deals were reflected in this settlement at once, the company will be able to see the improvement in operating cash flow and profitability from the third quarter. Through the voluntary innovation in the future, we will get rid of ineffectiveness and stabilize the business early."

Meanwhile, the DSME announced on Aug. 19 that it has cancelled a contract for the construction of a drillship. The order worth 703.4 billion won (US\$594.84 million) was placed by a U.S. owner in 2013. The DSME planned to complete the delivery by the end of this year, but it has recently decided to terminate the contract due to the failure of the ship owner to meet interim payment deadlines.

The DSME will keep the advance payment and the right to sell the drillship, which is under construction. Also, the company is expected to claim other losses from the ship owner through litigation. 



## Kuwait Construction

# Korean Builders Win US\$12.8 Billion in Al Zour NPR Project Packages

by Jung Min-hee



Korean construction firms are expected to win four out of five packages of the New Refinery Project (NRP) in Al Zour, Kuwait, which is the largest overseas construction project this year. From a total cost of US\$14 billion (16.39 trillion won), four packages are worth US\$12.8 billion (14.98 trillion won).

Earlier, the Kuwaiti government divided the project into five packages by construction type and placed the orders for Package Five in Jan. this year and Package One to Three in March.

According to industry sources on July 29, Hanwha Engineering & Construction (E&C) will receive a letter of award (LOA) for Package One worth US\$4.6 to \$4.8 billion (5.38 to 5.62 trillion won) from the Kuwait National Petroleum Company (KNPC) soon. The package has been practically won by a TR consortium of Hanwha E&C, Spain's TécnicasReunidas, and China's Sinopec. Packages Two, Three, and Five will also be won by Korean companies.

Since Korean builders already suggested the lowest prices in the previous biddings for the NRP project in Kuwait, they were highly likely to receive the orders. Among five packages, the consortium of Hyundai Engineering & Construction (E&C), SK Engineering & Construction and Italy's Saipem suggested the lowest price for Package Five, while the TR consortium did so for Package One. Also, the Daewoo Engineering & Construction (E&C) consortium consisting of Daewoo E&C, Hyundai E&C and the U.S.' Fluor Cooperation participated in the tender with the lowest price for Packages Two and Three. Accordingly, Korean construction firms were expected to monopolize the NRP project.


However, an unexpected challenge came up. Since their bid-

ding prices were US\$3 to \$4 billion (3.51 to 4.68 trillion won) higher than the Kuwaiti government's budget, the government delayed the decision for more than four months. As the Kuwaiti government has recently approved an additional budget for the NRP project, however, Korean builders are highly likely to obtain the packages again.

The NRP project is a mega construction project worth more than US\$14 billion (16.39 trillion won) and the estimated stake of Korean companies amounts to US\$6.2 billion (7.26 trillion won). Therefore, it will be good news in the Middle Eastern construction market, where there are not many ongoing projects due to the low oil price shock.

The total construction costs for the packages, in which Korean construction firms take part, will reach US\$12.8 billion (14.98 trillion won): US\$4.6 to \$4.8 billion (5.38 to 5.62 trillion won) for Package One, US\$3 billion (3.51 trillion won) for Package Two, US\$3.5 billion (4.1 trillion won) for Package Three, and US\$1.5 billion (1.76 trillion won) for Package Five. Although Korean builders' exact share will be set after negotiations, industry watchers say that it will be around US\$6.2 billion (7.26 trillion won).

It is said that the consortium of Italy's Saipem and India's Essar has won Package Four, worth US\$1.5 to \$1.6 billion (1.76 to 1.87 trillion won), which carried out a re-tender on July 7 after the consortium failed to obtain the order due to the prices.

According to data from the International Contractors Association of Korea, the total overseas construction order amount stood at US\$25.76 billion (30.15 trillion won) as of July. The amount in the Middle East amounted to only US\$6.98 billion (8.17 trillion won), which is as low as 27 percent of the total. 

## Joint Venturing

## Hyundai E&C, SK E&C, Saipem Win US\$1.5 Billion Project in Kuwait

by Jung Suk-yeo

A joint venture consisting of Hyundai Engineering & Construction, SK Engineering & Construction, and Italy's Saipem won the fifth package of the Al Zour New Refinery Project (NRP), worth US\$1.5 billion (1.75 trillion won), commissioned by the Kuwait National Petroleum Company (KNPC).

The project, divided into five packages in total, is to build the biggest refinery in the Middle East, which will boost its oil refining output capacity to 615,000 barrels per day.

This package is to construct an oil export terminal, a submarine pipeline, and a wharf for small vessels and other marine facilities for the refinery in the region of Al Zour, 90 km south of Kuwait City. The construction will take 45 months and be com-

The crude oil export facility of the Al Ahmadi Oil Pier Project in Kuwait completed by Hyundai E&C in July 2004.




pleted in 2019.

Hyundai E&C, which leads the consortium, will carry out maritime work worth US\$600 million (700.1 billion won), which accounts for 40 percent of the total amount of the contract. Also, SK E&C will be in charge of the US\$450 million (525 billion won) undersea construction, which accounts for 30 percent, while Italian builder Saipem will build the plant facilities.

Since advancing the Kuwaiti market with the first and second phases of Shuaiba Harbor Expansion Project in 1977, Hyundai E&C has carried out 58 successful projects worth US\$5.4 billion (6.29 trillion won) to build roads, refinery plants, power & distillation plants, and power transmission and transformation plants for 38 years, including the Kuwait Boubyan Sea Port Project Phase one completed in 2012. Currently the company is carrying out a total of three projects including the Sheikh Jaber Causeway Project worth US\$2.1 billion (2.45 trillion won).

Since the first business in 1994, SK E&C has taken on the Mina Al Ahmadi (MAA) refinery plant fire recovery project in 2001 and three oil gathering center facilities worth US\$2 billion (2.33 trillion won) from 2003 to 2007. As the company has successively won the Al-Zour New Refinery Project Package Five this year after the Clean Fuels Project (CFP) worth US\$1.6 billion (1.86 trillion won) last year, its cumulative amount of orders in Kuwait has exceeded US\$7 billion (8.16 trillion won).

An official from the joint venture said, "By winning the order this time, we have strengthened our status as the leading builder of Kuwaiti national infrastructure. It will help us take the advantageous position to obtain not only follow-up orders in Kuwait in the future but also similar orders in other 

## Commercial Buildings

# Lotte E&C Wins Kota Kasablanka Project Phase 2 in Indonesia

by Jung Suk-yeon

**L**otte Engineering & Construction (President Kim Chi-hyun) signed a contract for the Kota Kasablanka Project Phase Two with Pakuwon Group in Jakarta, Indonesia, on Aug. 3 to construct complex commercial buildings. The project, worth about 149.1 billion won (US\$128.09 million), including value-added taxes, is to cover a total area of 336,596 square meters, including underground parking lots, and to build one office building and two apartment buildings with 42 stories above ground and five underground levels to accommodate 1,196 households.

The signing ceremony was attended by Lotte Engineering & Construction President Kim Chi-hyun, Pakuwon Group Chairman Alexander Tedja, and its President Eiffel Tedja. The Pakuwon Group is the leader of a mega residential-commercial complex development business in Indonesia.


In a consortium with local company Totalindo, Lotte E&C has obtained the order. The construction is to begin in Aug. and to take 32 months, to be completed in April 2018.

The Kota Kasablanka Project, divided into two phases in total, will be located in the central commercial district, called The Golden Triangle, in Jakarta, the capital of Indonesia. The first phase of the project has been already completed and currently in operation as the mega multipurpose commercial complex.

Meanwhile, Lotte E&C has won the Grati Combined Cycle power plant extension project, commissioned by Indonesia's state-run utility firm PT Perusahaan Listrik Negara, in June. Construction is slated to begin at the end of this year.

The Indonesian construction market is estimated to be US\$267 billion won (310.79 trillion won) as of 2014, and rated number four in Asia, following China worth US\$1.78 trillion (2,071.92 trillion won), Japan worth US\$742 billion (863.69 trillion won), and India worth US\$427 billion (497.03 trillion won).

Lotte Engineering & Construction President Kim Chi-hyun said, "This is the first construction project won by Lotte E&C in Indonesia. Accordingly, we have established a bridgehead to tap into the Indonesian construction market in the future. Through the strategic alliance with Pakuwon, the leading real estate enterprise in Indonesia, we will keep establishing lasting partnerships in the future."

With a goal of obtaining more overseas orders this year, Lotte E&C chose Indonesia and Vietnam as strongholds. The company is planning to expand its business areas in the two countries from the architectural construction to civil engineering construction. 



Lotte Engineering & Construction President Kim Chi-hyun (right) poses with Pakuwon Group Chairman Alexander Tedja (left) and its President Eiffel Tedja (center), after a signing ceremony.



# SME & STARTUP

## Increasing Spotlight

### Global Enterprises, Investors Eye Korean Start-ups

by Cho Jin-young

Global ICT companies are accelerating their moves to provide support to Korean start-ups. They cultivate start-ups based on their core technologies, and help them enter overseas markets by forging partnerships. With overseas investors like venture capital firms in Silicon Valley eyeing start-ups in the nation, the ecosystem for start-ups is becoming animated.

According to industry sources on Aug. 25, Cisco, Google, and IBM are actively seeking to develop new solutions by building partnerships with Korean start-ups that have innovative ideas.

Cisco recently forged a partnership with global accelerator SparkLabs, helping Internet of Everything (IoE) start-ups expand their presence overseas. The IoE, which is an expanded notion of the Internet of Things (IoT) that connects physical objects, intelligently connects people, processes, data, and objects, creating new value.

Among IoE-related start-ups that develop various kinds of sensors and apps, those recommended by SparkLabs can move into the Global Center of Excellence, which is Cisco's IoE innovation center. Selected firms can also get technical advice from Cisco.

After building an IoE innovation center in Songdo, Incheon, Cisco developed and introduced an IoE-based solution for building a smart city to the global market in partnership with N3N, a start-up, which specializes in developing IoE virtualizing and management systems.

IBM is also actively nurturing local IoT start-ups. The company



The Smart city control center solution is demonstrated at Cisco's IoE innovation center. It is possible to manage a city in a safer and more efficient manner.

participated in the "K-Global Startup, Startup Challenge in the IoT Field" as a partner. The event was hosted by the Ministry of Science, ICT and Future Planning in last April. IBM Korea provided training, technical assistance and mentoring services to selected start-ups at the event. The company plans to provide SoftLayer global cloud infrastructure worth around US\$120,000 free of charge for one year.

Venture capital firms in Silicon Valley are aggressively investing in Korean start-ups as well. Amid the Born Global craze, the innovative ideas and mobile technology of local start-ups are receiving a lot of attention. On top of that, as social commerce company Coupang and mobile service provider Yello Mobile received a large amount of investment from venture capital firms in Silicon Valley, big players in the U.S. are reportedly paying attention to the Korean market.

In addition, 500 Startups, a Silicon Valley-based venture capital firm, moved into Google's first Asian start-up "campus" in Seoul and raised funds for start-ups in the nation. Altos Ventures recently made investments in local start-ups, including Coupang, Woowa Brothers, the company behind food delivery apps Baedari-Minjok, Brain Commerce operating Jobplanet, and Channel Breeze running apartment and home rental app Zigbang. 

## Venture Spring

### Increase in Number of Korean Venture Firms Reporting Over 100 Billion Won in Sales

by Jung Suk-ye



The number of venture firms that turned over more than 100 billion won (US\$84 million) last year is 460, a year-on-year increase of 7.


On Aug. 20, the Small and Medium Business Administration and the Korea Venture Business Association announced the results of their study on venture businesses that surpassed 100 billion won

in sales as of 2014.

Naver, SungwooHitech, STX Heavy Industries, Yura Corporation, Coway, and Humax were found to have crossed the 1 trillion won (US\$840 million) mark. Among venture firms that posted 100 billion won in sales, 19 of them recorded a more than 20 percent increase in sales revenue for three years in a row.

On average, it took 17.1 years for them to post 100 billion won in sales after starting business. However, Wemakeprice, 4:33 Creative Lab, Spigen Korea, Finetechnix, and Young Toys all achieved the same sales figures within 7 years through investing in research and development and cultivating new overseas markets.

The number of companies that were funded by venture capital firms after being established was 198, and 58.7 percent of them received investment within 7 years after being founded. The ratio of R&D investment to sales was 2.9 percent, or 6.2 billion won (US\$5.2 million) on average, which is much higher than the 0.7 percent of small and mid-sized companies or the 1.4 percent of large businesses.

Meanwhile, 42 companies became new members of the 100 billion won club this year. 

## Another Go Venture Firms Desperate for Second Chance

by Jung Min-hee

A large number of Korean firms that failed once are suffering from a lack of investment due to an immature venture financing ecosystem. However, the number of such firms is on the rise based on the government's efforts to give entrepreneurs a second chance.

One example is the Angel Investor Matching Fund, which was created by the government two years ago so that entrepreneurs trying again can better find the angel investors that they need. According to the Small & Medium Business Administration, only three firms attracted angel investment via the fund in 2013, and the number stood at three in 2014 and eight in the first half of this year. The total amount of investment during the period is estimated at only 1.1 billion won (US\$937,574) or so, too. The Korea IT Fund led by the Ministry of Science, ICT & Future Planning is limited to approximately 1.5 billion won (US\$1.3 million) in size right now. A project for private investment attraction was recently launched by the National IT Industry Promotion Agency, but the level of expectations is said to be very low.



Besides, 40 percent of such funds can be invested in non-retrying firms, and this rule has hindered businesses seeking to regain their footing from the funds. Furthermore, the lack of rules regarding such companies' year of establishment is likely to cause investors to prefer companies with stable sales to those in the death valley, while the amount raised by the fund of funds as a liquidity provider dropped from 9 billion won (US\$7.7 million) to zero between 2014 and this year, which means the retrying entrepreneurs are likely to see no more funds this year.

Under the circumstances, experts point out that the government should be more active in dealing with the market failure area. "Investment can be boosted if the government picks dedicated angel investors in advance and lets them act as screeners for the government's fund for retrying firms," said Dongguk University professor Lee Young-dal, adding, "Another option is to earmark 10 percent of that fund to set up an angel investment association." <sup>BK</sup>

## Highest Monthly Figure Number of New Companies Increased 23% in June

by Jung Suk-ye

The number of newly established companies reached a record high in June, based on monthly figures.

According to a report about the trend of newly-founded corporations published by the Small and Medium Business Administration (SMBA) on July 30, 8,778 new companies were established in June. The number is increased by 23.1 percent, or 1,645 firms, from the same month last year, and is the highest figure on a monthly basis.

By industry, the number of new companies in the manufacturing business reached 1,962, accounting for 22.4 percent of the total. The figures in the wholesale and retail industry and the leasing real estate industry amounted to 1,924 and 897, respectively. Compared with June last year, the scale rapidly increased, based on the leasing real estate industry, the wholesale and retail industries, and the manufacturing industry. In terms of growth rates, the leasing real estate industry showed the highest figure with 57.4 percent year-on-year.

By age of the founder, those in their forties founded 3,366



companies, accounting for 38.3 percent of the total, following those in their fifties with 2,286 firms or 26 percent, and those in their thirties with 1,917 firms or 21.8 percent.

Although the market environment is currently unfavorable due to the decrease of consumption from the Sewol ferry tragedy last year and the MERS virus outbreak scare this year, the number of newly-established companies has reached a record high. This is largely due to the Park Geun-hye administration's efforts to create a venture start-up ecosystem, including Creative Economy Innovation Centers, the SMBA said. <sup>BK</sup>



## Design Korea 2015

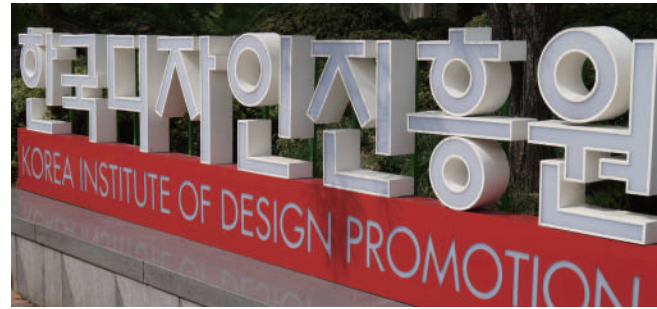
### KIDP to Hold Nation's Largest Industrial Design Fair in Nov.

by Jung Min-hee

**D**esign Korea 2015 (DK 2015), the nation's largest industrial design fair sponsored by the Ministry of Trade, Industry and Energy and organized by the Korea Institute of Design Promotion (KIDP), will take place from Nov. 11 to 15 at KINTEX in Ilsan, Gyeonggi Province.

The KIDP (President Jeong Yong-bin) announced that applications for participation and inquiries about the 13th DK in 2015 are pouring in. With the theme of "Design Business Fair," the DK 2015 will showcase around 2,000 good design products at home and abroad. Companies can now apply for participation on the DK official website ([www.designkorea.or.kr](http://www.designkorea.or.kr)) and the KIDP official website ([www.kidp.or.kr](http://www.kidp.or.kr)) until Sept. 30.

The KIDP believes that the event is being deluged with applications due to last year's distinguished results and this year's strengthened programs. The DK 2014 was rated as a comprehensive business event, rather than just a design event. About 180 companies from 10 countries took part in and 150 buyers from 27 countries visited. Also, there were 695 cases, worth 80 billion won (US\$67.68 million) of export consultation, and 35.5 billion won (US\$30.03 million) worth of provisional



The Smart city control center solution is demonstrated at Cisco's IoT Innovation center. It is possible to manage a city in a safer and more efficient manner.

contracts were signed at the event.

DK 2015 will run a "Buyer Matching System" that allows participating companies and buyers to exchange information with each other before the fair and to hold meetings during the fair, creating the best business matching results.

It will consist of a "Business Exhibition Hall," which displays companies in the lifestyle and IT category closely related to daily life, a "Business Consultation Meeting" to attract buyers, and a "Special Exhibition," which shows technology convergence with a design-centered industry. Also, there are other events, such as a "Design Forum," in which companies and buyers discuss and build networks, "Opening Performance," "Night of Design," and "Design Tryout Zone".

Moreover, the DK 2015 will display entries of Good Design (GD) products in 2015 and finalists of Korea Design Exhibition. KIDP President Jeong Yong-bin said, "Design Korea, a design fair that represents Asia and leads the domestic design industry, has created substantive businesses from 2003. This year, we will provide more opportunities to both companies and visitors by displaying the latest design trends and expanding B2B links." 

## Smooth Preparations

### 2015 GTI International Trade and Investment Expo Becoming Cornerstone of Northeast Asia

by Jung Suk-ye

**W**ith the 2015 GTI International Trade and Investment Expo coming in less than 80 days, the critical success factors of the expo, which are corporate recruitment and buyer invitation, are shaping up nicely.

A total of 385 domestic companies, including companies that have developed Winter Olympics products, and promising companies in the clean food, biotechnology, and medical device



GTI International Trade and Investment Expo 2015.

es sectors in Gangwon Province, will participate in the expo. The figure is higher than the previous goal of 300.

In particular, foreign companies, including member countries of the Governor's Conference of Local Governments in Northeast Asia, China Enterprise Confederation, The Industrial and Commercial Federation of China, China-Japan-Korea Enterprise Promotion Committee, Beijing-Chosun Business Committee, and the World Korean Business Convention, are inquiring about the participation of the expo.

As the opportunity to evaluate the product marketability of Gangwon Province-based companies and to open new markets, the GTI Expo will provide at least three one-on-one meetings with preferred buyers to mid-sized export firms so that they can

develop new export markets by creating new businesses.


The expo also plans to position itself as a tourist attraction for families and group visitors by offering discount and sampling events.

During the same period, the province will host art exhibitions, such as “Five Northeast Asian Countries’ Art Exhibition” and “Pyeongchang Biennale.”

In particular, it will run a night food market, which sells

local specialty products of Gangwon Province and fishery products, and hold performances every night to offer flavor to early autumn nights.

Gangwon Province expects that the 2015 GTI International Trade and Investment Expo will become a representative expo in Northeast Asia, as well as the improvement of its awareness at home and abroad.

For more information, visit [www.gtiexpo.org](http://www.gtiexpo.org). 

## Truly International 2017 Geumsan Ginseng Expo Pledges to be International Event

by Jung Suk-ye

Chungcheongnam-do announced that it had a basic plan design study interim report for the 2017 Geumsan World Ginseng Expo, which is presided by Governor Ahn-Hee-jung, at the convention room in the provincial government building on July 24.

In a report session, 20 government officials attended, including Governor Ahn-Hee-jung, Geumsan-gun Governor Park Dong-chur, Geumsan-gun (county) Council Chairman Kim Wang-soo, South Chungcheong Provincial Assembly Members Kim Suk-gon and Kim Bok-man, and the Province Policy Special Adviser Park Bum-in.

With the start of the interim report by the Industrial-Academic Cooperation Group of Hallym University of Graduate Studies (HUGS), which is a service institution, the meeting proceeded with discussion with and opinion gathering of experts and leaders of ginseng organizations.


The Industrial-Academic Cooperation Group of HUGS reported the validity of the international event, the formation of theme exhibition halls, and the development of programs, and the slogan and the measures to attract foreign visitors.

In particular, the group asked to develop content that focuses more on multi-purpose ginseng in the beauty, medicine, and food sectors rather than the existing white ginseng and fresh ginseng, in order for the third Geumsan World Ginseng Expo to have a distinction as an international event.

The group also suggested the ways to enlarge the scale and display, to create exchanges between the domestic and overseas markets, and to set the trend of all generations in a bid to promote it as the global expo for ginseng.

In the discussion, the participants talked about the development of killer content of the 2017 Geumsan World Ginseng Expo, and the development strategy of Korea Ginseng related to the registration of Globally Important Agricultural Heritage Systems.

Also, they agreed to form a world ginseng city union by connecting with the expo and continuously hosting international conferences related to ginseng for the global branding of Korea Ginseng.

The world’s ginseng city union is established by major producing, manufacturing and consuming nations of ginseng to build the standardization of ginseng, form a joint research and development system, promote its consumption, and develop new products and processing technologies. 



Ahn-Hee-jung (5th from left), governor of Chungcheongnam-do, addresses the assembled dignitaries at the mid-briefing session for the Geumsan Ginseng Expo Organizing Committee on July 24.



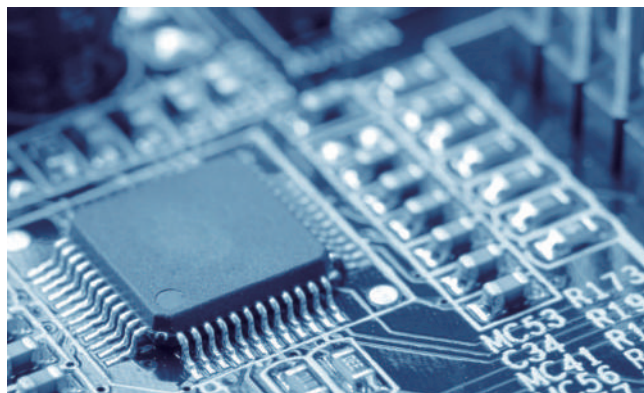
## Eco-semiconductors

### Tech Developed to Make Eco-friendly Semiconductors Using Water


by Cho Jin-young

Several Korean companies have successfully localized parts for satellites and space launch vehicles, taking one more step toward the nation's independence in space technology. On Aug. 27, the Ministry of Science, ICT and Future Planning announced that three local companies that were supported for their project to develop core technology for space succeeded in producing start trackers for satellites, antennas for satellite cameras, and combustion heads for space launch vehicles.

A Flight Model-level high speed, high precision star tracker, which was developed by the Satrec Initiative, provides satellite positions by observing stars. It is a high-value-added sensor that controls the attitude of the spacecraft, necessary for the development of practical low-orbit satellites. Since this star tracker was developed based on a complementary metal-oxide semiconductor (CMOS) active pixel image sensor (APS), it consumes less energy than existing charge-coupled device (CCD) image sensors. Moreover, it can provide information about the exact position of the spacecraft under acceleration. This component is going to be installed on small, next-gen satellites scheduled to be launched in 2017, and it will be tested for its performance in a space environment.



The X-band antenna for high-resolution satellite cameras developed by Kukdong Telecommunication is a gimbal-type antenna that guarantees steady data transmissions irrespective of the position of the satellite and that has greater mobility as well. It is lighter and has a lower vibration level than those installed on KOMPSAT-3 and KOMPSAT-3A, and is expected to be used in small next-gen satellites.

The combustion head using high-strength materials made by the Korea Institute of Materials Science (KIMS) is a structure that can withstand the weight of thrust power loading of a liquid rocket engine. It is also a core part that needs ultra-high strength at room temperature and extremely low temperatures. Manufacturing technology hasn't been disclosed by advanced countries, but the company was able to develop the combustion head through investment casting, using ultra-heat-resistant alloys, which was never tried. It also developed Hot Isostatic Pressing (HIP), a manufacturing process used to reduce the porosity of metals. The KIMS succeeded in developing a prototype, and thus it is expected to be used in the next space launch vehicles. 

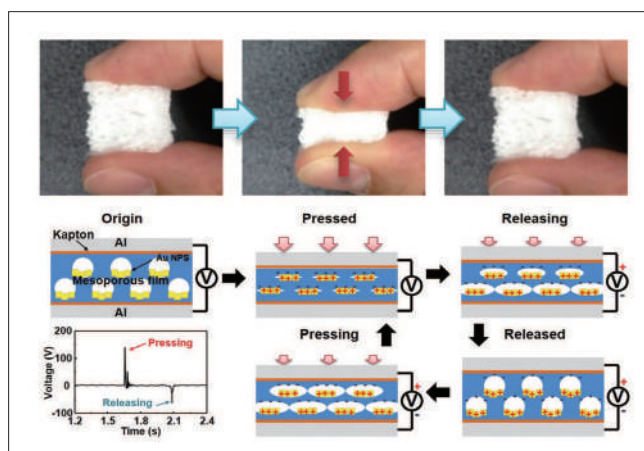
## Spongy Nanogenerator

### Korean Researchers Develop Tech to Make Spongy Nanogenerator

by Cho Jin-young

A Korean research team has succeeded in developing a technology for a nanogenerator that can operate via just pressure and produce 10 times as much power as conventional methods. Therefore, the newly-developed tech is expected to expedite the commercialization of nanogenerators.

According to Ulsan National Institute of Science and Technology on Aug. 20, one of its research teams headed by Baek Jung-min, professor of the School of Materials Science and Engineering, successfully developed a technique to make



The mesoporous film can be squeezed to 50% of its volume, and then returns to its shape. The film releases voltage when it is pressed, and absorbs less voltage when it is released.

a nanogenerator that can produce power by pushing a silicon material. Power can be generated from static electricity by inserting metal nanoparticles into the porous structure.

Professor Baek explained, "Our research team solved the problems of existing static electricity-based nanogenerators, which need air bounds. So, it will be possible to use the new nanogenerator with a sponge structure for various purposes." He went on to say, "The new nanogenerator can produce 10 times as much power as existing ones that utilize thin films."

The professor noted, "Since the new nanogenerator does not require air bounds, it is easy to make the device in a large area. Furthermore, the new nanogenerator is flexible and durable. So, it can steadily generate a huge amount of power," adding, "It is also usable in different environments or conditions."

## Silver Nanoparticles Key 100X Faster Charging Tech for Electric Cars, Smartphones

by Cho Jin-young

On Aug. 12, a research team headed by Dr. Ahn Do-cheon and Dr. Lee Kook-seung from Pohang Accelerator Laboratory announced that they succeeded in developing a positive and negative electrode material for lithium-ion batteries capable of conducting electricity 100,000 times faster. It was done by adding small amounts of silver to lithium manganese phosphate, which is drawing a lot of attention as a next-gen positive and negative electrode material for lithium-ion batteries.

Lithium manganese phosphate (LiMnPO<sub>4</sub>) has the same structure as lithium iron phosphate (LiFePO<sub>4</sub>), which is commonly used as an electrode material for lithium-ion batteries. The former is more efficient, since its energy density is high, stemming from its high operational electric potential.

However, LiMnPO<sub>4</sub> has not received much attention as an electrode material, as its conductivity is more than 100 times as low as LiFePO<sub>4</sub>, leading to low capacity and low power. Thus, to use it as an electrode material, it was necessary for the research team to increase the conductivity of LiMnPO<sub>4</sub>.

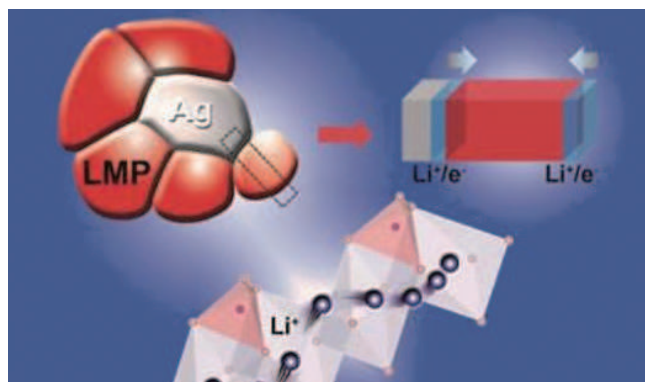
To accomplish the goal, they added silver in the amount of 1 percent of the total mass of LiMnPO<sub>4</sub>, and used a solid state synthetic method to create a LiMnPO<sub>4</sub> electrode material with silver nanoparticles.

The research team found that the conductivity of LiMnPO<sub>4</sub> with silver nanoparticles improved by more than 100,000 times, since silver, which is one of the most conductive metals, exists between LiMnPO<sub>4</sub> crystals with low conductivity, resulting in LiMnPO<sub>4</sub> with silver nanoparticles having a highly-conductive structure.

Using the new nanogenerator, the research team made a sensor that measures the distribution of pressure, a large-area mat that generates power by pedaling, and an auto charger.

Professor Baek also remarked, "The newly-developed nanogenerator can generate electricity from pressure that occurs when pressing or treading. Or, it is possible to produce energy using the wind or waves at sea." He concluded by saying, "The new one proved to be superior to existing ceramic-based nanogenerators. So, I think that our technology will speed up the commercialization of static electricity-based nanogenerators."

The research findings were first published online on Aug. 11 by Energy & Environmental Science, a monthly scientific journal published by the Royal Society of Chemistry. <sup>BK</sup>



A silver (Ag) nanoparticle plays the role of a conducting bridge between the olivine crystallites that surround it, dramatically improving the overall electrical conductivity of LMP by four orders of magnitude.

After examining its electrochemical characteristics, the research team also discovered that LiMnPO<sub>4</sub> with silver nanoparticles was able to generate more power, store much more energy, and last longer than the one without silver nanoparticles. In addition, LiMnPO<sub>4</sub> with silver nanoparticles was found to be capable of producing power 100 times faster than LiMnPO<sub>4</sub>, when it was discharged within 6 minutes.

On top of that, a drastic improvement in the conductivity of LiMnPO<sub>4</sub> was found to be possible as well, by adding small amounts of silver instead of using carbon, a conductor, thereby increasing energy density and energy per unit volume.

Dr. Ahn remarked, "This study is significant in that it has opened the possibility of commercializing LiMnPO<sub>4</sub> as an electrode material for lithium-ion batteries by greatly improving its conductivity, after adding small amounts of silver to LiMnPO<sub>4</sub> with low conductivity."

The research findings were first published online on July 7 by Nanoscale, a scientific journal published by the Royal Society of Chemistry, and the study was funded by the Ministry of Education and the National Research Foundation of Korea under the Project to Support Basic Research in Science & Engineering. <sup>BK</sup>



# CULTURE

## Korean Culinary Franchise New Globalization Trends of the Korean Food Industry

by Marie Kim

In April this year, the Ministry of Agriculture, Food and Rural Affairs announced that the government will work to nearly double the number of Korean restaurants in other countries, a move aimed at developing the country's restaurant industry and globalizing its traditional food.

This is not the first time the government has worked to globalize the Korean eatery industry. Under the Lee Myung-bak administration, a mostly government-led campaign focusing on traditional Korean cuisines had First Lady Kim Yoon-ok as the spokeswoman.

The government still has an important role to play, but the vital force for Korean food globalization these days stems from locally-flourishing businesses seeking new opportunities. In addition, the popularity of Korean pop culture in China and Southeast Asian countries, or the so-called Hallyu, helps boost the international demand for Korean food.

Since 2010, there is an increasing incidence of Korean franchise businesses in the food industry turning their attention to foreign markets. This time, their motives often relate to the saturation of the local market and search for new opportunities.

As of Dec. 2014, 120 Korean franchise companies had established 3,726 locations abroad. Interestingly, most of their menus focus on non-Korean dishes -- the ratio of non-Korean to traditional Korean food restaurants is 3,378 to 348. A majority of franchises that have recently entered foreign markets are also latecomers in the chicken and coffee industry in Korea.

This foreign expansion is rapidly on the rise among Korean restaurant franchise companies. Compared to 2013, the number of overseas locations of Korean franchises increased by 1,009.

Geographically, the franchise locations tend to be concen-




This Bibigo restaurant in Singapore serves modern style Korean dishes to an international clientele.

trated in Asia, where there are 2,516, followed by North America with 1,036. By country, 1,505 Korean restaurant franchises are in China, followed by the U.S. with 959, Singapore with 81, the Philippines with 192, and Indonesia with 72.

Given that the low recognition of Korean culture has been one of the major barriers in attracting customers in the past, the popularity of Korean content, so-called Hallyu, has proved vital in boosting local demand for Korean food. In fact, in a study published by the Korea Agro-fisheries & Food Trade Corp (AT), the popularity of Hallyu ranks 2nd in the list of considerations, following market size, when Korean restaurant business people decide on overseas business expansion.

Many still consider government support to be useful. A survey by the AT noted that local franchises benefited from market information provided by KOTRA. In addition, given the challenges in establishing the local network and assessing distributional channels in overseas markets, many wish that the government could match them with local business partners.

All in all, it is worth noting that the recent globalization trend differs from the Korean food globalization project that former First Lady Kim Yoon-ok championed with overarching government leadership. The trend has developed at the grassroots level alongside the soaring popularity of Hallyu throughout Asia, fed by enthusiastic and risk-taking local entrepreneurs in their search for new opportunities. 

## High Rollin' Korean Government to Permit Casino Cruise Ships

by Jung Suk-ye

Korean cruise casino operations for foreign passengers will be possible as early as next year.

The Ministry of Oceans and Fisheries unveiled on July 28 that an ordinance to permit cruise casinos was approved at the latest cabinet meeting. The ordinance will come into effect from Aug. 4, but the government authorities assume more time is



An example of a casino on a cruise ship.

needed for actual operations.

Several companies have expressed their interest in joining

the operation. According to the ordinance, the cruise operator should have an “investment appropriate” grade given by credit-rating institutions. The size of the casino is limited to less than 2,600 square meters for 100,000+ ton vessels, and less than 1,300 square meters for vessels smaller than 100,000 tons. The casinos also must be equipped with foreign currency exchange booths and an internal computing system accredited by the Tourism Ministry.

The government expects the ordinance to pave the way for more than five local cruise operators to create 1 trillion won (US\$864 million) in economic effects, including creating 8,000 new jobs by 2020.

## Chinese Genesis Localization Strategy of Genesis BBQ in China

by Marie Kim

Genesis BBQ is one of Korea’s leading culinary franchises spreading Korea’s culinary businesses and propagating Korean food culture around the globe. Genesis BBQ has, so far, signed Master Franchise agreements with local leading companies in 57 different countries including the United States, China, Vietnam, and Brazil. As of today, Genesis BBQ has opened 500 locations in 30 countries.


From operating in foreign countries for a fair amount time, GenesisBBQ has gained valuable business expertise and that the company would like to share with Business Korea readers.

For its global business strategy, Genesis BBQ adopts a Master Franchise model for effective localization. A Master Franchise model is one international franchise arrangement where the franchiser enters into a partnership with a competent local business partner familiar with the local business environment. Under the Master Franchise arrangement, Genesis BBQ grants the local partner exclusive rights to use its trademark, and the company transfers Genesis BBQ business expertise to the partner. However, sometimes, under exceptional circumstances, Genesis BBQ opts for direct franchising and sets up its own flagship store.

In China’s case, Genesis BBQ entered the market in 2003. Since then, the has strived to develop a new menu, and operated based on strategic marketing with a goal of establishing itself as a top restaurant in the Chinese food service market.

One of the marketing strategies that Genesis BBQ pursues in the Chinese market is to differentiate it from others by providing high-quality services. With explosive economic growth, the number of Chinese consumers who seek a higher standard of living is continuously on the rise. In line with such a trend, Genesis BBQ launched BBQ premium cafes that use healthy ingredients, such as 100 percent extra virgin oil. In addition, given the absence of delivery food service culture, Genesis BBQ

Market observers say, however, that it may have a smaller impact than expected, since only foreigners can access the casinos, with Koreans still restricted in the access. The casinos are also banned from operating on the seas of South Korea.

In May this year, ocean and maritime affairs Minister Yoo Ki-june appealed to allow Koreans to play games in order to secure profits for the operators, but the Tourism Ministry deferred the decision for fear that the permission might create a public backlash if it is seen as encouraging gambling. Currently Kangwonland Resort Casino in Jeongseon-gun, Gangwon Province, is the only gambling location that Korean citizens can access. 



and the ubiquity of the scene of family dining out together in China, Genesis BBQ adopted a new business concept as a family restaurant. The company also added new varieties to its existing menu to accommodate family guests. Thanks to such localization efforts, the company increased its turnover by 300 percent last year.

For another effective marketing strategy, BBQ chose to utilize popular Chinese messaging services such as Weibo and Weixin. A majority of Chinese communicate through these services. For this reason, BBQ set up a local team specializing in so-called viral marketing, with a focus on Weibo and Weixin, to raise public awareness of the Genesis BBQ brand. The team also propagates its menus and the company’s strengths. As a result, the brand has gained high public recognition and is now ranked among the top restaurants as the most-searched-for restaurant on the Chinese Internet.

Genesis BBQ proves that it is one of the Korean culinary franchises that has most benefitted from the popularity of Hallyu in China. For instance, the famous line by Korean actress Jeon Ji-hyun, “When it is snowing, drinking beer with chicken is most proper” struck a responsive chord with Chinese young people to the extent that they have adopted that aspect of Korean food culture. In 2014, the popularity of the Korean soap opera “My Love from the Stars” swept across Chinese screens, and so did the popularity of Genesis BBQ. In particular, it turns out that Chinese locals enjoy chicken in a luxurious atmosphere. For such a reason, one can easily spot people standing in a long line for 30 minutes or more to enter the BBQ premium café at Shanghai Expo, or in Daehakro. 